

VENDESI

Battle on the tracks  
Competing to build  
high speed trains

Artificial worlds  
Virtual reality as  
an aid to design  
Technology, Page 12

Today's surveys  
China Section III  
Swiss banking Section IV

# FINANCIAL TIMES

Europe's Business Newspaper

THURSDAY NOVEMBER 18, 1993

D8523A

## Belgian austerity plan prompts falls in interest rates

The Belgian government agreed after 16 hours of talks to a wide-ranging austerity pact which will curb social spending and limit wage increases to the rate of inflation until the end of 1996. The pact also contains fresh measures to tackle rising unemployment. It led to a cut in two leading interest rates and prompted a buoyant response in Belgium's financial markets. Page 16

### Strong showing by US housing market

A strong recovery is under way in the US housing market with starts up 14 per cent in the year to October after mortgage rates this year declined to their lowest level in two decades. Page 5

### Immunity vote goes against Tapie

Businessman and former French urban affairs minister Bernard Tapie (left) was brought a step nearer investigation for alleged fraud after a National Assembly committee recommended the lifting of his parliamentary immunity. The vote follows a request by a state prosecutor investigating alleged embezzlement at Testut, a maker of scales and part of the holding company Bernard Tapie Finance. The full assembly will decide on the recommendation.

**UN seeks Bosnian convoys pledge:** The United Nations is to seek firm guarantees today from Bosnia's warring factions that its relief convoys will be given safe passage to save hundreds of thousands of people in desperate need of food and shelter. Page 2

**Japan's LDP told to oppose reforms:** The leadership of Japan's divided opposition Liberal Democratic party urged members to vote today against government plans to clean up the country's political system. Page 6

**PLO cash crisis threatens peace process:** The financial crisis in the Palestine Liberation Organisation could jeopardise the Israeli-Palestinian peace process, PLO economics chief Ahmed Qurei warned. The PLO has been unable to meet its operating expenses for five months. Page 7

**Anti-terror fund launched:** Leading institutions in the City of London have helped raise a £1m (\$1.45m) fund to reward information on IRA attacks on economic targets. Page 16

**Tough US line on China trade:** US officials say they are ready to impose trade penalties on China even though President Clinton has adopted a new policy of closer engagement with Beijing. Page 4; Editorial Comment, Page 16; Survey, separate section

**Electrolux, Swedish white goods manufacturer,** reported a third-quarter profit of SKr198m (\$24.5m) after financial items from a SKr22m loss a year earlier, reflecting the benefits of a weaker krona. Page 21

**Heathrow link bidders line up:** German, French and Japanese companies are among six bidders for the main tunneling contracts for the £300m rail link between West London and Heathrow airport. Page 16; Next chapter of the railway children, Page 15

**Nutricia profits from baby food,** fell sharply after the company said a recall of 1m jars of baby food would affect its 1993 profit forecast. Page 17

**Nicaragua bows to IMF pressure:** Nicaragua, under pressure from the International Monetary Fund, will raise taxes or cut spending, paving the way for official finance to the country. Page 5

**Magyar Hitel Bank, Hungary's largest** commercial bank, revealed a substantial capital shortfall and said it was discussing a P150-P160bn (\$500m-\$600m) government bail-out. Page 17

**Senate opposes assault weapons:** The US Senate voted to ban semi-automatic assault weapons as part of a bill to fight violent crime.

**Hunt for Aided ends:** The UN Security Council voted unanimously to call off the hunt for General Mohammed Farah Aided, the Somali warlord whose followers were blamed for attacks on international peacekeepers. Page 7

**UK hopes of rate cut:** A marked fall in UK inflation last month, together with disappointing growth in shop sales, revived hopes that UK interest rates will come down. Page 8

## South Africa poised to reach deal on constitution

By Patti Waldmeir  
in Johannesburg

SOUTH AFRICA was last night on the verge of majority rule as democracy negotiators put the finishing touches to a constitution which will end 350 years of white minority oppression and give blacks the vote for the first time in history.

By late last night, weary negotiators had reached agreement on all but a few points of the historic 158-page constitution, the fruit of years of negotiation. The process was set in train when

government ministers met Mr Nelson Mandela, leader of the African National Congress, while he was still serving a 27-year prison term for opposing the racist state.

The constitution, which will remain in force for up to five years, is based on traditional western values which contrast sharply with apartheid, one of the most repressive regimes in history. It guarantees multi-party democracy, equality before the law, fundamental human rights and freedoms, an independent judiciary, and a free press. Mr

Matthew Goniwe, the ANC's constitutional negotiator, said the 21 parties meeting last night were "digging the grave for apartheid".

Mr Roelf Meyer, the government's chief negotiator, shocked delegates to the negotiating council when he announced that the government had agreed to a very weak form of multiracial power sharing, a capitulation by the ruling National Party.

All parties with more than 5 per cent of the vote will be granted a seat in cabinet in a government of national unity,

with two deputy presidents to be chosen from the two top parties. The president, who is likely to be Mr Mandela, will be elected by the national assembly. The president will try to take decisions by consensus, but he will have the final say where this is not possible.

But the new constitution has powerful opponents, among them the mainly Zulu Inkatha Freedom party of Chief Mangosuthu Buthelezi and the white right wing, led by retired Army General Constand Viljoen. Together, they form the so-called Freedom

Alliance of rightwing parties which poses a substantial threat to the stability of the government which will emerge after elections on April 27 next year.

Mr F.W. de Klerk, the president, has left open the possibility that the Freedom Alliance may ratify the constitution after it has been adopted by the other 21 parties, but this seemed increasingly unlikely.

Concessions were made to the Alliance in last night's debate, including allowing regions to write their own constitutions and requiring a two-thirds majority of

the regional house of assembly, the senate, to change the powers of regions. But these did not appear sufficient to bring the Alliance back on board.

With a low level civil war already raging in Natal province between Inkatha and the ANC, and with the right wing heavily armed and well trained, the two could prevent elections altogether unless they are accommodated.

Climbdown seals deal, Page 7  
Editorial comment, Page 15  
South Africa survey, Pages 29-34

## Bundesbank attacks EU over plans for spending

By David Waller in Frankfurt

A SCATHING attack on European Union spending plans is launched today by the Bundesbank, which says they threaten progress towards monetary and political union and will worsen Germany's budget difficulties.

In its monthly report for November, published as members of the central bank's decision-making council meet today in Frankfurt to consider further interest rate cuts, the Bundesbank cautions that the financial disciplines embraced by member states under the Maastricht treaty could be undermined by the EU's spending.

"The effectiveness of individual countries' monetary policy may be restricted through the increased granting of direct and subsidised lending at the community level," the Bundesbank says. This would "scarcely be helpful" on the path to economic and monetary union.

Adopting the tone normally reserved for its critique of domestic spending, it says the EU's budgetary behaviour must be in harmony with broader macro-economic and monetary objectives.

The Bundesbank stops short of urging the German government to curb its contribution to the EU budget, but points out that Germany's transfers to the union are set to increase substantially in the context of a projected steady rise in EU spending as a whole. Total EU spending on structural measures is set to be Ecu176bn (\$201bn) in 1993-99, compared with Ecu57bn in 1988-92.

It predicts that Germany's gross transfer of funds to the union will grow from DM38bn

(\$52.4bn) currently to DM52bn in the next five years, an average annual growth of 5 per cent - far higher than the intended increase in German government spending as a whole. Net transfers - taking account of the inflow of funds to eastern Germany - will climb from DM52.4bn in 1992 to DM30bn in 1997.

"The increased international demands on the federal republic come at a time when Germany's public sector finances are under considerable pressure as a result of reunification, resulting in a substantial increase in government spending and indebtedness," the Bundesbank says.

Germany's role as largest contributor to EU finances may have been justified before reunification, but the Bundesbank argues it is questionable now, following reunification. Germany is now, in purchasing power terms only the sixth most prosperous country in the union, having been the second after Luxembourg.

In another part of the report today, the Bundesbank says that economic fundamentals are more important in determining the stability of a currency than institutional arrangements such as the European Monetary System.

Thus the increased flexibility in the European exchange rate mechanism brought about by the move to wider fluctuation bands did not reduce the chances for stable relations between currencies - so long as countries continued to pursue the objective of medium-term economic stability.

Warning on enlargement, Page 2  
SPD criticises Frankfurt, Page 3  
Belgian rates cut, Page 16



Bill Clinton limbers up on the steps of the Capitol Building before yesterday's NAFTA debate

## Transatlantic air war flares as UK retaliates against American efforts to undermine BA rights

By Paul Betts, Aerospace Correspondent, in London

THE TRANSATLANTIC air war flared up again last night with the British government threatening to limit US flights to Heathrow in retaliation against efforts to undermine British Airways' rights in the US.

The UK's tough reaction is expected to revive tensions over transatlantic air services and threatens to complicate the already difficult negotiations on a new "open skies" agreement between the two countries.

The UK is accusing Washington of seeking to curtail BA's rights to offer joint code sharing services with USAir, the sixth largest US carrier, in which BA owns a 24.6 per cent stake.

Code sharing is a growing trend in the airline industry and

enables two airlines to use their respective ticketing codes. This enables an airline to offer a service with a single code even if part of the journey is made on the other carrier.

In the case of the BA-USAir partnership, BA operates the transatlantic legs while USAir serves the US domestic sectors.

UK airlines obtained rights to code share with US carriers under the so-called Heathrow Deal negotiated in 1981 which allowed American Airlines and United Airlines into Heathrow, the world's biggest international airport.

The latest row follows an application to the US government by

BA in August to expand its code sharing services with USAir. After a three month delay, the US announced last Friday it would only give approval for the new BA code sharing services for the next 60 days instead of the usual 12 months.

Continued on Page 16

## Paris urges banks to ease squeeze on small companies

By David Buchan in Paris

MR Edouard Balladur, the French prime minister, yesterday asked banks to ease the credit crunch that has pushed many small companies under. The move reflects concern about the weakness of the country's economic recovery.

In return, Mr Balladur reviewed with leading bankers their demands for a change in the bankruptcy law to give creditors greater security; an extension of government guarantees on bank loans to small and medium-sized companies; and a cut in the tax on bank deposit interest.

The Association of French Banks, which represents about 60 per cent of all banks in France, defended itself against criticism that banks have been squeezing small companies. It said yesterday that its total loans outstand-

ing at September 30 1993 were 2.5 per cent higher than a year earlier. But the association acknowledged that the recession had forced banks to be more cautious in lending to smaller firms, which are more dependent on short-term bank finance than bigger enterprises.

The government is already in the process of meeting several of the banks' demands. A reform of the bankruptcy law, to give creditors greater protection when a company declares itself bankrupt, is to go before the National Assembly next week. Meanwhile, Mr Edouard Balladur, the economy minister, said the tax on all bank deposit interest, from 38 per cent to 19 per cent, in 1995.

The 38 per cent tax rate has encouraged savers to put their money into lower-taxed money market funds rather than depos-

its which banks can count into their balance sheets.

"Banks must play their part in the recovery," Mr Alphandery told the National Assembly, adding that "it would be very damaging if a lack of dynamism in our banking sector put a brake on the recovery which could begin in the months to come."

Mr Balladur's caution over interest rate cuts was again evident when he discussed next year's economic prospects with his own RPR party's backbenchers earlier this week.

"In 1994 France should return to a growth rate which is feebly positive," he said, hardly a ringing reaffirmation of his government's official forecast which is still for 1.4 per cent real growth next year. The Bank of France said yesterday that industrial output "dipped slightly" in October.

**ALDERS** MANAGEMENT  
**Buy-Out**

ALL TOGETHER A BETTER CHOICE

**1989 Management Buy-Out**  
LED AND ARRANGED BY  
**Prudential Venture Managers**

**1993**  
*Flotation*  
CONGRATULATIONS  
TO THE MANAGEMENT TEAM

**1992 Management Buy-Out**  
LED AND ARRANGED BY  
**Prudential Venture Managers**

**1993**  
*Acquired by*  
CHRISTIAN SALVESEN PLC  
CONGRATULATIONS  
TO THE MANAGEMENT TEAM

**PRUDENTIAL**  
Venture Managers

Prudential Venture Managers Limited, Andover House, 6th Floor, Leadenhall Street, London EC3A 3RN. Tel: 01-317 7741  
Member of DABO  
November 1993 - This announcement appears as a matter of record only

STOCK MARKET INDICES			
FT-100	3,120.0	(+22.5)	New York S&P 500
Yield	3.8		1.800
FT-SE Eurotrack 100	1,363.56	(+10.27)	
FT-AI-Share	1,036.05	(+0.07)	
Nikkei	16,108.71	(+137.41)	
Dow Jones Ind Ave	3,705.46	(+5.31)	
S&P Composite	465.26	(+1.48)	
US LUNCHTIME RATES			
Federal Funds	2.12%		
3-mo T-bill	3.37%		
Long Bond	101.4		
Yield	6.15%		
LONDON MONEY			
3-mo interbank	5.15%	(52.2)	
Libor 6m gill funds	Dec 1151	(Dec 1143)	
NORTH SEA OIL (August)			
Brent 15-day (last)	\$16.16	(15.95)	
Oil			
New York Crude	\$17.0	(17.45)	
London	\$17.0	(17.50)	

CONTENTS			
News		Company	
European News	2.3	UK	24-26
Features		Int. Cap. Mkts	28
Leaders Page	16	Int. Bond Service	23
Letters	14	Managed Funds	38-42
Management	11	Money Markets	42
Observer	4	Recent Issues	23
Technology	12	Share Information	38,37,46
Arts	11	Traditional Options	23
Arts Guide	13		
Auto Guide	13		
Crossword	35		
International News		Gold Markets	
World Trade News		Equity Options	23
UK News	6,10	Int. Bond Service	23
People	11	Managed Funds	38-42
Weather	16	Money Markets	42
Luc	16	Recent Issues	23
		Share Information	38,37,46
		Traditional Options	23
		London SE	
		Wall Street	
		Bourses	
		Derivatives	
		■ South Africa	
		■ China	
		■ Swiss Banking	
		(Separate Sections)	



## NEWS: EUROPE

Bosnian faction leaders face pressure in Geneva for firm guarantees on the peaceful passage of relief

## UN seeks to end attacks on aid convoys

By Robert Mautner

THE United Nations will today seek firm guarantees from the three warring factions in Bosnia that its humanitarian convoys will be given safe passage over the coming winter to save the lives of hundreds of thousands of people in desperate need of food and shelter.

Ms Sylvana Foa, spokeswoman of the UN High Commissioner for Refugees, described the meeting in Geneva today between the High Commissioner, Mrs

Sadako Ogata, and Bosnian political and military leaders as "a last-ditch effort" to ensure that aid would get through.

The lives of as many as 3m people who were beneficiaries of UNHCR aid were at risk as the bitter Bosnian winter has begun to bite with 3 ft (1 metre) snowfalls and temperatures well below freezing point.

"Very soon it's going to be 18 degrees centigrade below zero," Ms Sylvana told diplomatic correspondents in London yesterday. "The average

adult in the enclaves has already lost 12 kilos. We are talking about people in a very bad state indeed."

They needed not only food, but building materials to provide adequate shelter in towns and villages where many houses and apartments had been destroyed. One of the biggest needs was for plastic sheeting, nails and plywood to give the minimum protection against the elements, as well as coal for heating.

The aid crisis has been compounded by continuing attacks

by the warring factions against UN relief workers and soldiers, in one of which a Danish driver was killed last month. That incident led to the suspension of UN aid supplies for the past three weeks by Mr Boutros Boutros Ghali, the UN secretary-general.

The UNHCR requires firm guarantees that all such attacks cease before resuming its relief convoys.

Mrs Ogata's efforts to get guarantees will be backed up by Mr Cornelio Sommaruga, the president of the International

Committee of the Red Cross (ICRC), who is also expected to attend the meeting. Lord Owen, one of the two international mediators on the former Yugoslavia, is expected to take the opportunity to meet the Bosnian faction leaders individually. However, there is no intention at this stage to convene a joint meeting of the three warring parties for peace negotiations.

A Yugoslav war crimes tribunal was yesterday officially inaugurated, to attempt to prosecute perpetrators of murder, rape and enforced expulsions in Europe's bloodiest conflict since the second world war, writes Ronald Van de Krol in The Hague.

The 11 judges of the international tribunal were sworn in at the International Court of Justice for an initial period of four years.

Doubts have already been raised about the effectiveness of the UN-sponsored tribunal because it will not try suspects "in absentia", and because UN troops on the ground have no power to make arrests.

## NEWS IN BRIEF

## French MPs rule against Tapie

A FRENCH parliamentary committee yesterday recommended that the national assembly waive the immunity of Mr Bernard Tapie, the embattled businessman and former minister, to answer allegations of fraud, writes David Buchanan in Paris.

The full assembly is expected to decide next week whether to follow the committee's recommendation and allow Mr Tapie, who won election as a left-wing deputy in the Marseilles area last March, to be investigated for alleged irregularities in campaign finance and in the diversion of corporate funds of a company called Testut to Bernard Tapie Finance SA and to Olympique-Marseille, Mr Tapie's football team.

Mr Tapie faces a second request to have his parliamentary immunity lifted over the investigation of alleged bribery of Olympique-Marseille's football opponents. That request will, however, have to be handled by a separate parliamentary inquiry.

## Paris plea over unpaid phone bills

France's Senate yesterday called on government ministers to settle unpaid telephone bills totalling more than FF12bn (\$2bn), Remer reports from Paris.

The upper house passed an amendment to the 1994 budget calling on ministers to pay off arrears to help the debt-ridden state phone company, France Telecom.

It said that the biggest culprit was the interior ministry, but even the telecommunications ministry itself owed money for phone calls.

## Romanian optimism on IMF loan

Mr Mircea Coses, Romania's deputy prime minister in charge of economic reform, said yesterday a breakthrough had been made in talks with the International Monetary Fund for a new standby arrangement, writes Virginia Marshall in Bucharest.

Mr Coses, who returned to Romania yesterday after 18 days of talks in Washington, said he expected a letter of intent would be signed after an IMF visit to Bucharest at the end of this month. Romania has received no credits from the IMF this year after failing to meet its final performance criteria under a 1992 arrangement and due to disagreements with the fund over targets for a new accord.

The sticking point in negotiations has been the Romanian government's unwillingness to liberalise the foreign exchange regime.

The black market rate for the lei is around 40 per cent lower than the official currency auctions. Local bankers estimate that the daily official auction accounts for only around 10 per cent of hard currency transactions.

## Brussels begins social policy talks

The European Commission yesterday launched a four-month consultation process aimed at inspiring far-reaching reforms of social policy in the European Union, writes Andrew Hill in Strasbourg.

Mr Jacques Fyrm, the social affairs commissioner, said the aim was to find ways of reforming the policy against a background of economic difficulties. "We need continued economic growth, and we need to have more flexibility and competitiveness. But economic growth must go hand in hand with social progress," he said.

The Commission yesterday published a green paper on the options for social policy and invited ideas or suggestions before the end of March 1994. Brussels hopes to produce concrete proposals for action in the second half of next year.

## Poland makes pledge on reforms

Poland's new left-of-centre government has told the IMF it intends to continue with free market reforms to achieve financial stability, writes Christopher Bobinski in Warsaw.

"I'm encouraged by what I've heard," Mr Richard Erb, IMF deputy director, said yesterday after two days of talks with senior officials. Mr Erb is the most senior western financial official to visit Poland since the election two months ago won by the former communist Left Democratic Alliance (SLD) and the Polish Peasant Party (PSL).

Mr Erb warned that "it is important to continue with a strong budget policy and there is a need for further progress on lowering inflation". So far this year prices have risen by an average of 35 per cent.

Mr Erb was speaking after the government had said that the budget deficit next year would reach no more than 5 per cent of GDP, with inflation expected to reach 26 per cent.

## Armenia to issue its own currency

Armenia, one of the smallest and poorest of the 12 members of the Commonwealth of Independent States, says it will issue its own currency, the dram, leaving Belarus and Tajikistan as the only republics committed to keeping the Russian rouble as their own currency, writes Layla Bonhôte from Moscow. Armenia will receive financial support from the IMF for the switch.

## Plan for European security conference soon

THE European Union plans to host a European security conference in the first half of 1994, aimed at settling latent frontier and minority problems in eastern Europe, diplomats in Paris said yesterday, writes David Buchanan.

Plans are far advanced for the 12 members of the European Union to use their Brussels summit next month to launch the initiative for a European "stability pact," first broached several months ago by France, the diplomats claimed.

They described the plan as "an exercise in preventive diplomacy," designed to deal with unresolved eth-

nic and border problems in east European countries that "have a vocation to join the European Union or be very closely associated with it," rather than existing conflicts in the Balkans or the Caucasus.

Invitations to attend the conference would probably go to members of the Conference on European Security and Co-operation, including the US, Canada and Russia, but excluding those in the Caucasus and central Asia. However, the geographical scope of the "stability pact" would be limited to Poland, Hungary, the Czech Republic, Slovakia, Romania, Bul-

garia and the three Baltic republics.

The planned EU initiative would take the form of an opening conference, followed by bilateral negotiations between East European countries on "good neighbourly" accords. Such agreements would form part of the "stability pact" which, if all went well, could be adopted by a winding-up conference in 1995. The final document would be deposited with the CSCE.

The Belgian presidency of the EU had sounded possible participants in the conference and drawn a generally favourable reaction, the diplomats

claimed. Hungary was described as being the most enthusiastic about the idea because of the possibility of improving the lot of the large ethnic Hungarian minorities in Romania and Slovakia.

A key doubt had been the possibility of whether Russia would want to deal with the issue of the large ethnic Russian minorities in Estonia, Latvia and Lithuania bilaterally with those new Baltic republics. But President Boris Yeltsin was said to have recently confirmed to Prime Minister Edouard Balladur, who first raised the stability pact idea in April, that

Russia would negotiate minority issues in the Baltic region in a multilateral forum.

The stability pact is designed to be on the Twelve's first joint foreign policy initiatives since their Maastricht treaty came into force this month. According to diplomats here, the Twelve hope the prospect of entry into the EU will serve as a political incentive for East European countries first to settle differences among themselves. "But the stability pact is not a strict precondition for East European countries joining the EU", said a diplomat.

## Claes warns on talks over EU enlargement

By Andrew Hill in Strasbourg

TALKS ON reforming the decision-making structure of the European Union should not be mixed up with enlargement negotiations, the Belgian presidency of the EU said yesterday.

"You can't do the two [at once]; a choice has to be made," Mr Willy Claes, Belgian foreign minister, told the European Parliament yesterday.

The Union has set itself a tough timetable of finishing negotiations with the four candidate countries - Austria, Finland, Sweden and Norway - by the beginning of March 1994, in the hope that they will be able to join the EU by the beginning of 1995.

But the parliament is concerned that the addition of new member states could hinder EU action, unless substantial reforms are made in sensitive areas such as majority voting by ministers, the number of European commissioners, and the composition of the three-country "troika" which carries out foreign policy missions on behalf of the EU.

Smaller members of the EU have frequently voiced concerns that reforms - particularly of the existing weighted

voting system - might simply mean that they are railroaded into decisions by larger countries, which have more votes.

But certain MEPs believe that reform should be tackled as soon as possible, to avoid confusion later.

Mr Jean-Louis Bourlanges, a French conservative MEP, yesterday warned against using the argument that small member states had to be defended as "an excuse for not doing anything."

The parliament last night voted in favour of a resolution calling for institutional changes to "accompany" enlargement, including greater use of an improved system of weighted majority voting. These changes "must be incorporated in the accession treaties," said the resolution.

Mr Claes said he would draw the attention of his fellow foreign ministers to the Parliament's resolution when they meet on December 6 and 7.

In theory, MEPs have the power to block the accession of new EU members but sources close to the enlargement negotiations said yesterday they believed the parliament would be reluctant to hold the accession process to ransom over institutional reform.

## Oslo may reach membership compromise on control of energy Norway's PM optimistic on EU

By David Marsh European Editor

NORWAY has held out hopes for a compromise on the difficult question of aligning its laws on oil and gas licences with the proposed new European Union energy directive.

Mrs Gro Harlem Brundtland, the Norwegian prime minister, said she was optimistic of negotiating an agreement by next spring on Norwegian membership of the EU.

This would allow the issue to be put to a referendum in Norway next autumn, as part of the proposed accession of Austria, Finland, Norway and Sweden on January 1, 1995.

In an interview in London with the Financial Times, she stressed that Norway would join the EU only if the other countries of western Europe adjusted some terms of membership to Norway's special needs.

The EC needed the "political will" to accept that Norway's geographic and economic conditions required adaptation in the fields of fisheries, agricul-



Brundtland: the EU must see Norway's resources as a special case because of geographic and economic conditions

ture and energy.

"We will join only if we feel we are welcome - if other countries see that the scene in Norway is different [from elsewhere in the EU]," she said. Mrs Brundtland's minority Labour government is itself

split on the question of membership.

About 60 per cent of Norwegians are against participation in the Union, according to recent opinion polls. This makes Norway by far the most sceptical of the four European Free Trade Association (EFTA) countries negotiating to join.

A crucial part of the negotiations centres on the question of Norway's control over its oil and gas resources.

Norway has been allowed to take part in EU discussions on a proposed directive to increase competition in the energy sector which would require changes in the country's present laws on oil and gas field licences. However, it has been unhappy about proposals under which Statoil, the national oil company, would no longer have an automatic right to 50 per cent participation in exploration of oil and gas fields. Additionally, the EU wants Statoil to give up its role managing the state's financial participation in the country's energy resources.

Mrs Brundtland said, however, that a compromise was possible here.

"If we open for Statoil to be put in an equal situation as far as licences are concerned, then that could be acceptable if we could keep the logical situation that Statoil manages the present state participation. We are looking to see if we can find solutions."

## Telecoms groups to step up outsourcing

By Andrew Adonis

THE BID by European telecommunications operators to develop a large-scale business from "outsourcing" the telecoms needs of multinational companies intensified this week with the European Commission's clearance of a joint venture to service the international financial services market.

The Financial Network Association, a joint venture company between twelve national public telecommunications operators, six of them European, was cleared by the Commission on condition that its services were not cross-subsidised by revenue from

monopoly operations.

The FNA is the latest of a succession of joint ventures in the last two years intended to tap the international outsourcing market. Europe now has at least four alliances targeted at the market, with AT&T, the US giant, set to launch its "Worldsource" outsourcing venture in Europe next year.

The European participants in FNA are Mercury, the UK subsidiary of Cable & Wireless, Deutsche Telekom, France Telecom, Belgacom of Belgium, Telefonica of Spain and Italcable of Italy. Other members include MCI, the second largest US long distance carrier, KDD of Japan and Telstra of Australia.

The company will be offering specialised international network services to the financial sector, in particular high-capacity networks for the conveyance of data and images.

Mr David Bland, FNA's general manager, said: "We will be providing connectivity, and a seamless service, to a market under-provided for at the moment." The alliance will be offering "managed bandwidth" for services largely designed by the users.

The FNA faces strong competition not only from other outsourcing ventures, but also from Swift, the body jointly owned by international banks to manage their major network functions.

The FNA reflects the growing complexity of international telecommunications alliances. All of its members also belong to others alliances, some of which are competing with fellow members.

MCI, the US long-distance carrier, formed a joint venture this summer with BT, with whom Mercury competes in the UK, while Mercury's parent, Cable & Wireless, has a 24.5 per cent stake in Optus, the main competitor to Telstra in Australia.

"Technology transfer is a very complex issue - the agreements run to nearly 100 pages," says Mr Bland, who is also an MCI executive.

The size of the outsourcing

market is unclear. Financial institutions are among the highest corporate spenders on telecoms, but they have sophisticated networks and managers of their own.

Mr Ian Moore, director of the financial services group of the UK Telecommunications Managers' Association, said: "I don't believe there is going to be much of a new outsourcing requirement. For truly international institutions, telecommunications are strategic; for the rest, their international requirements are minimal."

Mr Bland said FNA had received expressions of interest from "several very large companies" but declined to name them.

**THE ORIGINAL DALVEY BUSINESS CARD CASE**

INDIVIDUALITY AND FINE CRAFTSMANSHIP. Amid the organisers, filefaxes and credit card holders of today, the Dalvey Business Card Case stands its own apart. Elegantly slim, lightweight yet robust, it is a splendid decorative and practical personal accessory.

INSPIRED BY VICTORIAN AND EDWARDIAN ORIGINALS, the design itself is entirely unique. It is made from high quality stainless steel superbly polished to give a magnificent finish which does not tarnish. It is decorated with a solid brass plate on which initials can be engraved, or a company logo embossed. Precision engineered and hand finished, the smooth, slender Card Case is a pocket in a presentation box, accompanied by an illustrated booklet of period etiquette.

COMPLETE PROTECTION of your cards is ensured. Each one will emerge in pristine condition, to represent you as it should.

FINE VALUE AT £24.95 As a personal, corporate or business gift the Dalvey Business Card Case is unlikely to be bettered. Engraving of up to 3 initials £4.50 and p&p £1.75 are extra.

CORPORATE ENQUIRIES WELCOME. Please phone or fax us for quotations for quantities and details of our full range of unique stainless steel gifts and accessories.

Grants of Dalvey, FREEPOST 1032, Alnwick, Northshire 1V17 0HR.

Full refund if not completely satisfied.

Length 110mm Width 50mm

ORDER FORM (Please write clearly) FT07

Mr/Ms/Miss..... Please send me: TOTAL

Address..... Card Cases at £24.95 each £.....

Engraving at £4.50 each £.....

Postage at £1.75 each £.....

Daytime phone number..... P & P at £1.75 each £.....

Engraved Initials Required..... Cheque/PO enclosed for TOTAL £.....

Send to: Grants of Dalvey, FREEPOST 1032, Alnwick, Northshire 1V17 0HR. Access..... Visa..... Amex.....

(Tel: 0549 884111 Fax: 0549 884100) Expiry date.....

24 hours) Name on Card.....

Please allow up to 28 days for delivery. Signature.....

## DANISH LOCAL ELECTIONS

## Coalition parties take a beating

By Hugh Carnegie and Hilary Barnes in Copenhagen

DENMARK'S coalition government parties have taken a beating in local government elections, which showed a surge in support for the opposition Liberal Party, headed by former foreign minister, Mr Uffe Ellemann-Jensen.

The Liberals won 27.1 per cent of the vote against 15.3 per cent in the last election to the Folketing (parliament) and 17.8 per cent in the 1989 county council vote.

The results are a pointer to the general election due before the end of 1994 in which the Liberals are set to lead the opposition challenge to the

Social Democratic-led coalition, headed by Prime Minister Poul Nyrup Rasmussen.

Mr Rasmussen said yesterday he was satisfied with the

Liberals are set to lead the opposition challenge

result, which "shows that people are beginning to see the results of the government's policies."

The Social Democrats won 34.4 per cent in the county council elections compared with 37.4 per cent in the 1991 Folketing elections and 35.4

per cent in the 1989 local government vote.

But results for two of the small centre parties in the present four-party coalition were disastrous. The Centre Democrats won 1 per cent compared with 5 per cent in the 1991 Folketing election; the Christian People's Party went down to 1.6 per cent from 2.3 per cent.

The Centre Democrats would lose all their nine seats and the Christians their four seats in the present Folketing if Tuesday's result were repeated in next year's election. The fourth coalition party, the Radical Liberals, did better, scoring 8.9 per cent compared with 3.5 per cent in 1991.

The Conservatives, aiming

to form a coalition with the Liberals after the next parliamentary election, went down to 12.8 per cent from 15.0 per cent in 1991 and the right-wing populist Progress Party scored 5.1 per cent, down from 6.4 per cent in 1991.

On the far left, the Socialist People's Party scored 9.1 per cent, up from 8.3 per cent in 1991.

The Social Democrats have led the coalition since January when Mr Poul Schlüter, who was conservative prime minister since 1982, resigned.

Mr Ellemann-Jensen said yesterday the signal from the local elections was that "the voters found it unreasonable to switch governments without a parliamentary election."

THE FINANCIAL TIMES Published by The Financial Times (Publishing) Limited, 1, Abchurch Lane, London EC4N 3DF. Telephone (01) 427-4621, Fax (01) 427-4622. Telex 63900. Registered by the Registrar of Companies, London. DVM Druck-Vertrieb und Marketing GmbH, Adolph-Hofmann-Strasse 2, D-2260 Nienburg (owned by Hünigier International). Responsible Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL, UK. Shareholders of the Financial Times (Europe) GmbH - The Financial Times (Europe) Ltd, London and E.T. (Germany) Advertising Ltd, London. Shareholder of the above mentioned two companies is: The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL. The Company is incorporated under the laws of England and Wales. Chairman: D.C.M. Ltd.

FRANCE: Publishing Director: J. Roffe, 148 Rue de Rivoli, F-75004 Paris Cedex 01. Telephone (01) 4297-0621, Fax (01) 4297-0622. Printer: S.A. Nord Roul, 1521 Rue de Calais, F-91000 Roissy Cedex. Registered in France. SIREN: 333 555 114-2753. Commission Paritaire No 67802D.

FINLAND: Financial Times (Scandinavia) Ltd, Viikinkaari 1, 00100 Helsinki, Finland. Telephone 33 13 44-11, Fax 33 13 53 33.

**NB POWER**

which involve the construction of more than 30 reactors. At the very least Russia is likely to need World Bank help if it is to proceed.

In the Ukraine, unable and western nuclear sources.

Mr Remy Carle, chairman of the WANO governing board and deputy general manager of Electricite de France, told the economy, supplier of fuels and other factors which the nuclear industry has little control.

which involve the construction of more than 30 reactors. At the very least Russia is likely to need World Bank help if it is to proceed.

In the Ukraine, unable and western nuclear sources.

Mr Remy Carle, chairman of the WANO governing board and deputy general manager of Electricite de France, told the

economy, supplier of fuels and other factors which the nuclear industry has little control.



## SPD says Frankfurt caused jobs crisis

By Quentin Peet in Wiesbaden

LEADERS of Germany's opposition Social Democrats (SPD) yesterday stepped up their criticism of the monetary policy of the Bundesbank, accusing it of causing "hundreds of thousands" of job losses in German industry.

At the annual conference of the SPD, they called for a "more appropriate external value" of the D-Mark to promote jobs, but denied that they were seeking an outright devaluation of the national currency.

At the same time they warned of the need for "massive cuts" in public sector consumption in the medium term, in order to bring the country's ballooning national debt under control.

And they gave strong support to plans for a Europe-wide strategy on economic growth and job creation, calling for the proposals drawn up by Mr Jacques Delors, president of the European Commission, to be strengthened and extended.

Mr Oskar Lafontaine, deputy leader of the SPD and party spokesman on the economy, rounded on the Bundesbank in a statement of party strategy on job creation, intended as the basis of the next year's election platform. He said the high interest rates imposed by the central bank had made the D-Mark too strong.

"We should not always believe in the absolute wisdom of the Bundesbank," he told the party conference in the spa town of Wiesbaden. "It was a great mistake to have raised interest rates once again, at the beginning of the recession. That has cost us hundreds of thousands of jobs, because exports have collapsed."

He said that the effective revaluation of the D-Mark against other European currencies by some 10 per cent had the same effect on German export prices as a wage increase of 33 per cent.

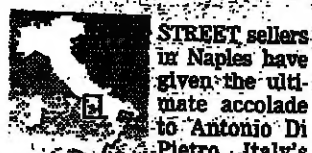
His extraordinary attack on the central bank are usually regarded as beyond criticism, was immediately backed by Mr Rudolf Scharping, the SPD party leader.

"It hits the nail on the head, especially in the European context," he said. "When I see how we have damaged the French economy with our high interest rates, I must say that was not clever. That was a policy focused on our own national navel, paying attention only to our own domestic conditions." Mr Scharping denied that the party was calling for a devaluation of the D-Mark, in a resolution seeking "lower interest rates and a more appropriate external value of the D-Mark."

Mr Lafontaine warned the party that it would have to take drastic action to control public expenditure if it wins the elections next October, by seeking to shift spending from consumption to job-creating investment. He stressed that the party intends to keep the growth in public spending below the nominal growth of the gross domestic product, in a long-term strategy to cut the national debt.

## Naples to name successor to the mob

Robert Graham reports on a vote that will determine who will replace the disgraced former city bosses



**STREET** sellers in Naples have given the ultimate accolade to Antonio Di Pietro, Italy's best known anti-corruption magistrate. As the traditional nativity figures come on the market for Christmas cribs, his effigy has been included alongside the wise men and shepherds.

When Mr Di Pietro visited the Naples magistrature this week the throng of well-wishers was so large he was obliged to leave through a side entrance. The man he came to interrogate, Mr Francesco Di Lorenzo, a former Liberal health minister and one of the city's former political bosses, also had to leave by a side entrance - to avoid a hostile crowd.

The law has suddenly become a hero in this city with a reputation for cheerful anarchy and honouring the law merely in the breach. In less than 12 months a once-impenetrable political clique of mainly Christian Democrat and Socialist politicians has been discredited and humbled by revelations of bribe-taking on a scale unparalleled elsewhere in Italy. Mr Di Lorenzo this week

was even offering to hand back Lahn (€1.6m) taken in bribes.

But if the traditional political bosses have been forced to the sidelines and face jail, no clear successor has emerged to run this chaotic sprawling metropolis, which is due to host the summit next July of the Group of Seven leading industrial nations. The big test comes this weekend when Naples' 860,000 voters, along with nearly a quarter of the Italian electorate, go to the polls to elect a new municipal administration.

Opinion polls suggest that the four parties long associated with governing Naples - Christian Democrats, Socialists, Liberals and Social Democrats - can scarcely muster 20 per cent of the vote against 60 per cent bought with political patronage in previous elections. Their candidate for mayor, Mr Massimo Caprara, a former communist and elder statesman, is trailing fourth.

The contest has narrowed down to Ms Alessandra Mussolini, grand-daughter of Il Duce, who is running for mayor on the neo-fascist MSI ticket, and the veteran former communist, Mr Antonio Bassolino, the mayoral candidate of the Party of the Democratic Left (PDS). Ms Mussolini, elected as a Naples deputy in April, is mar-



Alessandra Mussolini: neo-fascist candidate for mayor of Naples

ginally ahead in the polls. Her campaign of photogenic smiles and bold talk of rediscovering the "real Naples" has little to do with her success. She is a political lightweight riding on the back of nostalgic evocations of the Mussolini name

and her film star aunt Sophia Loren's close identification with Naples. She has benefited from the MSI's strong local roots and the party's distance from the various corruption scandals that have seen 60 of the 80 previous local council-

lors implicated. Ms Mussolini has also picked up support switched from the old ruling parties. The police meanwhile believe the vote controlled by organised crime, estimated to number 80,000, will swing behind Ms Mussolini.

The PDS, backed by a leftist alliance, is campaigning hard on promises to restore the rule of law and make Naples work. "From the traffic to industrial production, from the schools to the municipal apparatus, Naples today is on the edge of collapse... In all these areas the mayor has to and can do something," says Mr Bassolino of his programme "My Naples". In the partial municipal elections of last June, PDS-backed administrations won eight out of 10 municipalities in the Naples area, long dominated by Christian Democrats. In Naples itself, PDS supporters hope enough voters will recognise the city's problems are so dramatic that a Mussolini vote would only make them worse.

Naples has been under special administration since the council was dissolved in July and the city declared bankrupt. The 1993 budget had been drawn up with creative accounting that grossly over-estimated sales of municipal property and tax collection while under-estimating

expenses. The main municipal services are in chronic deficit, and all the parties are promising varying forms of privatisation.

Mr Bassolino has produced a brave 100-day action plan to end years of deliberate municipal neglect in the water supplies, traffic control, accountancy standards, supervision of contracts and building licences and schooling. Naples has school truancy rates as high as 40 per cent in some areas, which both influences, and is influenced by, the high instance of juvenile crime.

A combination of low productivity, political patronage, the presence of organised crime and poor infrastructure have long frightened away investment.

Recession has made matters worse as have cuts in central government transfers. As a result Naples has 350,000 unemployed, close to 30 per cent of the workforce. The sole element that thrives is the contraband and drugs trade which remain tolerated in part because of the income generated.

Against this background, Sunday's vote will mark either the beginning of an attempt to revive the fortunes of Naples or a further stage in its decline.

## Lombard League MP quits over probe

By Robert Graham in Rome

MR Giuseppe Leoni, one of the most prominent parliamentarians in the populist Lombard League, resigned yesterday.

Mr Leoni has been under investigation since last week for allegedly failing to declare L10m (£4,000) worth of campaign contributions to fight his seat in the northern city of Varese. He announced his resignation yesterday to clear his name, although he had been urged to remain by Mr Umberto Bossi, the League leader. Mr Leoni was one of the founders of the League, along with Mr Bossi. The sum of money involved is the smallest known to have been investigated by magistrates in the corruption scandal.

The League is convinced the move is part of a campaign to paint the party in the same colours as the rest of the political establishment, which has been discredited by the scandals. Almost the entire media, as well as the main parties, are on the offensive against Mr Bossi and the League, claiming the party risks forcing the break-up of Italy.

## Brussels approves Ekostahl sale plan

By Andrew Hill in Strasbourg

THE European Commission yesterday set the scene for today's crucial ministerial meeting on restructuring the west European steel industry by approving amended plans for the sale of Ekostahl, the state-owned east German steelmaker.

The Commission also attached strict safeguards to the plan to assign private steelmakers' shares about 50 per cent of the market.

Riva, the private Italian steelmaker, is to buy 60 per cent of Ekostahl from the Treuhand privatisation agency, and build a new mill with a capacity of 900,000 tonnes. But Riva has now also pledged to close one of its own east German mills, cutting capacity by a further 330,000 tonnes by mid-1994. State subsidies to Ekostahl will be reduced from DM298m (£55m) to DM18m.

The Commission said it was now up to EU industry ministers, meeting in Brussels today, to endorse the steel crisis by unanimously approving plans for restructuring east German, Spanish, Italian and Portuguese state steel producers. Only the Italian government has failed to agree with the Commission on an acceptable balance between state aid and closures.

Officials are sceptical about the chances of a breakthrough today, but if the Commission's proposals are implemented the EU's state-owned steelmakers will have to cut capacity by a total of 5.5m tonnes, and will be allowed to receive Ecu6.8bn (£1.18bn) of subsidies in return.

## Talks on Irish wage pact falter

By Tim Coone in Dublin

IRELAND faces the prospect of a wages freeze-for-all following the breakdown of talks yesterday between the government and the Irish Congress of Trade Unions (ICTU) over a new centralised pay bargaining agreement.

ICTU yesterday notified its affiliated unions to prepare for a return to free collective bargaining, having failed in its attempts to persuade the government to remove an unpopular 1 per cent income levy over the next two budgets.

For the past six years, public and private sector pay rises have been regulated through tripartite agreements between the government, employers' organisations and ICTU, the latter representing the bulk of organised labour in the country. The first agreement, known as the Programme for National Recovery, ran from 1987-1990 and the second, known as the Programme for Economic and Social Progress (PESP), ran from 1991 and expires at the end of this year.

The two agreements have been largely responsible for the economic stability in Ireland over the past six years, peace on the industrial relations front, and the achievement of

one of the best economic growth rates and one of the lowest inflation rates throughout the European Union.

Mr Bertie Ahern, the finance minister, introduced the 1 per cent income levy in last January's budget to help meet pay deals in the public sector and raise funds for a job creation programme. Its critics have argued that the levy amounts to a 2 per cent increase in the basic income tax rate, in that it is calculated as a 1 per cent of the whole income, without any allowances.

Mr Peter Cassells, the general secretary of ICTU said the levy "struck at the heart of the PESP, acting as a clawback of pay deals that had already been settled and so our members have lost confidence in the process".

The levy is worth some £145m (£138m) per year to the Exchequer, and Mr Ahern has said that even if the levy were to be removed, in time, it would have to be balanced by tax increases elsewhere. Mr Ahern said earlier this week that "the government is anxious to enter into a new agreement, but not at any price".

Public sector pay has risen by 46 per cent since 1987, while inflation has risen by only around 15 per cent.



The only walls left, as you know, are the ones in your head. A new chapter for Europe was opened by the destruction of the Berlin Wall. The next will surely

feature people who think constructively. People who value a truly European perspective on business, politics, society, culture and all that matters. The European is your weekly confirmation that in place of bricks and mortar, there are now words and ideas. Europe is changing. Are you standing still?

THE EUROPEAN  
THE WEEKLY NEWSPAPER FOR EUROPE



## NEWS: WORLD TRADE

Clinton and Jiang meet tomorrow at Apec talks  
US waves stick at China

By Alexander Nicoli and George Graham in Seattle

US officials insist they are ready to impose trade penalties on China even though President Bill Clinton has adopted a new policy of closer engagement with Beijing.

Mr Charles Barshefsky, deputy US trade representative, listed three areas of trade negotiations in which the US expected China to take action in the near future: market access, textiles, and intellectual property rights.

These issues and China's growing trade surplus with the US were due to be raised yesterday by Mr Warren Christo-

pher, US secretary of state, with Mr Qian Qichen, China's foreign minister, as part of a series of bilateral meetings taking place during the annual ministerial meeting in Seattle of the Asia Pacific Economic Co-operation grouping.

Trade issues, as well as human rights and nuclear proliferation, are also likely to be raised tomorrow when Mr Clinton meets President Jiang Zemin in Seattle.

A senior administration official said, however, that the Seattle meetings would not be negotiations but an opportunity to explain Mr Clinton's new two-pronged approach to China: that the US recognised

China's importance and did not wish it to be isolated, but that serious points of disagreement needed to be addressed.

The official said: "We can either stand outside and lob our concerns over the wall, or we can engage face to face with the Chinese leadership and make clear that we recognise that China is a great country with enormous potential, but that for our relationship to continue to progress there has to be sensitivity on their part to the concerns that we have."

Ms Barshefsky said that on market access, China had agreed last year to reduce import restrictions but its "offers... have been inade-

quate". The US would take action after December 31 if its requirements were not met.

On renewal of a bilateral textile accord which also expires December 31, she said recent discussions had been more productive. However, agreement required significant movement by China, and the US was prepared to take unilateral action.

On intellectual property rights, Beijing had enacted a "world class" series of laws "but there is no enforcement", Ms Barshefsky said. "This is a very urgent issue which requires immediate attention by the Chinese," she said, referring in particular to pirating of compact discs.

## Apec nations at odds over Gatt talks

By George Graham and Alex Nicol

TRADE and foreign ministers from the Pacific region gathered in Seattle yesterday for their annual Asia Pacific Economic Co-operation meeting still divided over how far to go in their efforts to kickstart the Uruguay Round of global trade negotiations.

Apec officials said they had still not resolved whether the ministers should simply issue a statement calling for a successful agreement to liberalise rules on trading and investment within the General Agreement on Tariffs and Trade, or should show their commitment to breaking the logjam at the Gatt talks in Geneva more forcibly by offering further tariff cuts.

The clearest demonstration would be the collective willingness to go the extra mile and put additional tariff reduction offers on the table in Geneva," said Mr Tony Miller, Hong Kong's director-general of trade.

Senior officials from the Apec countries have been holding talks in Seattle since the weekend to prepare the ground for the meeting, but had not been able to resolve this issue before their ministers arrived for an opening dinner last night and the start of serious discussions this morning.

The Apec meeting is taking place at a critical moment for world trading negotiations, coming immediately after last

night's vote in the US Congress on the North American Free Trade Agreement and less than a month before President Bill Clinton's fast-track negotiating authority for the Uruguay Round expires on December 15.

At the least, officials said they expected the ministerial meeting to issue a declaration urging more progress on the Gatt talks.

Ms Charles Barshefsky, deputy US trade representative, said: "It is the view of Apec senior officials that substantial impetus needs to be given to the Round in order for it to be concluded by the deadline of December 15."

"I expect a declaration on the Uruguay Round. I would hope and expect that that declaration would be extremely strong."

Nevertheless, some officials acknowledged that anything Apec might say or do would be largely peripheral to the main issues that are still holding up conclusion of the Round, many of which lie between the US and the European Union.

Some countries left out of Apec have questioned whether Mr Clinton's new emphasis on building trading ties to the Asia Pacific region represented an effort to build a fortress-like trading bloc incompatible with Gatt's multilateral approach.

But US officials say a strengthened Apec would be "a building block, not a trading bloc", which would not shut out other nations and would complement the Gatt.

## Investment and trade links boosted

By Alexander Nicoli

OFFICIALS from 15 Pacific countries yesterday agreed on a new trade and investment framework which will mark a modest step towards closer co-operation without setting the stage for creation of an Asian trade bloc.

A declaration expected to be approved by trade and foreign ministers of the Asia Pacific Economic Co-operation group, who began their annual meeting last night, will establish a permanent committee on trade and investment.

Ms Charles Barshefsky, deputy US trade representative, said the new framework "will take Apec beyond its current role as a facilitation and co-operation forum to a policy-making role, to be expanded through consultation and consensus by its members".

The committee, she said, would be charged with finding "ways to expand trade, create a more attractive investment climate and facilitate the flow of goods, capital and technology across the region".

Mr Kim Chulso, South Korea's trade minister, said: "This is a mandate for a more active approach to advancing regional co-operation."

However, according to participants, the discussions on the new framework revealed vigorous disagreement about Apec's future role, some members favouring creation of formal, bureaucratic structures in which to discuss trade liber-

alisation and others - apparently a majority - preferring to maintain a more liberal, informal approach.

The resulting declaration will represent only a mild institutionalisation of Apec. Mr Tony Miller, Hong Kong's director-general of trade, said it "binds nobody but sets out a collective view." One of Apec's advantages over other bodies, he said, was its informal atmosphere.

An Australian official said the new committee was "a step of considerable significance" although he conceded that "in an outsider it might not seem to amount to much". He said the idea had been too sensitive to raise when Apec was founded only four years ago.

The committee's work would include harmonisation of customs procedures, a database of regional tariffs, and a study of investment regulations.

Differences of view over Apec's future role were also evident in the officials' discussions on a report by an eminent persons group headed by Mr Fred Bergsten, a US economist. The report, to be submitted to the ministerial meeting, sets out a series of steps towards creation of a Pacific economic community.

Mr Miller said the report was a "truly visionary piece of work". However, some members had reservations about the path it recommended. Ms Barshefsky said Apec would implement "selected aspects" of the report.



NAFTA OPPONENTS: Ross Perot (front), the Texas billionaire and Patrick Buchanan (left), right-wing commentator, meet to discuss the North American Free Agreement, before the vote.

## Alumina project revived in Greece

By Karin Hope in Athens

GREECE'S new Socialist government is reviving a much-delayed project to build a \$500m alumina plant in central Greece, using Russian technology and equipment.

The plant at Thessaloniki, 120km from Athens, would produce 600,000 tonnes of alumina a year from locally-mined bauxite to supply aluminium plants in Russia.

The industry ministry wants private investors to take a 10 per cent stake in the project. A group of state-owned Russian companies, including several aluminium smelters, would have a 51 per cent stake, with the remainder held by a Greek state company.

The ministry said it was reappointing as its advisers Salomon Brothers of the US, which worked on the project under the previous conservative government.

The project was halted two years ago because of financing problems. Construction of a port for the plant on the Gulf of Corinth near the site was completed but work on the processing facility failed to start because of financing problems.

The Socialist government hopes to obtain some funding for the project from the Delors II package of structural aid for poorer member-states of the European Union.

## Rolls-Royce in third Indian power contract

By Stefan Wagstyl in Bombay and Chris Tighe in Newcastle

ROLLS-ROYCE, the British engineering group, yesterday won a \$275m order for a power station in the Indian state of West Bengal. It was the company's third Indian contract signed this week and brought the total to \$660m.

The contracts have been completed during a week of British business events in Bombay attended by Mr Douglas Hurd, foreign secretary. Other companies which announced commercial agreements yesterday included British Gas, the PowerGen generating company, and Aerospace Composite Technologies, a high technology materials manufacturer, which won an order for replacement wind-screens for India's Russian-built MiG-21 fighter aircraft.

Rolls-Royce is to manage the construction of a 500MW coal-fired plant at Balasagar and supply generators from the UK for the Calcutta Electric Supply Corporation, an affiliate of the Calcutta-based R P Goenka business group. The total turn-key contract will be carried out by Rolls-Royce Power Generation Systems, part of Parsons Turbine Generators based in Newcastle upon Tyne, on behalf of CESC of Calcutta.

Parsons will supply two 250MW steam generators for the three-year project, located

on an island in the Hoogli River.

Yesterday's news follows Tuesday's announcement by Rolls-Royce Industrial Power Group of two Indian power station projects worth \$385m. Under these contracts the company will build a 200MW gas-fired combined cycle plant at Kakinda in Andhra Pradesh, and participate in a new company, Chandil Power, to build and operate a 500MW coal-fired power station at Chandil in Bihar.

The three contracts give Parsons a total of five new turbine generators to build, providing work into 1996. Rolls-Royce and Goenka have also established a joint venture company to manage the refurbishment of existing power stations, many of which operate far below capacity.

PowerGen agreed a similar venture with Aditya Birla, a diversified industrial group led by Mr Aditya Birla, which will bid to build new plants as well as upgrade existing ones.

British Gas signed co-operation agreements with the government's Oil and Natural Gas Commission covering technical aspects of oil and gas development in India and possible joint exploration overseas.

Zeneca, the chemicals company, established a joint venture with ITC, the Indian affiliate of BAT Industries, for a seed technology company.

## Kantor expects 'concrete' offers by Apec

By Nancy Dunne in Washington

THE Seattle summit of the 15-nation Asia-Pacific Economic Co-operation forum will produce "concrete" offers for the bargaining table in Geneva which will help the Uruguay Round towards a successful conclusion by December 15, Mr Mickey Kantor, the US trade representative, said yesterday.

In high spirits and confident of approval by the House of Representatives of the North American Free Trade Agreement, Mr Kantor said an administration victory on NAFTA would provide President Bill Clinton with "the moral and political authority to go to the Apec and work with his counterparts - and they will respond."

He said he expected further momentum to come from his meetings with Sir Leon Brittan, the European Union's chief trade negotiator, in Washington next week. "We will get a Uruguay Round [deal]," he said.

Mr Kantor said the US was taking the leadership on trade "to grow the world economy" and would continue to do so. Vital to this was Mr Clinton's belief in the link between US economic and national security and between both of those and trade.

Mr Kantor was optimistic about US relations with France, which are vitally important to final agreement. He said one "big mistake" the previous administration had made was in not directly engaging with the French. He himself, he said, had twice met French officials in recent months.

"They have their own interests," he said. "We cannot question their motivations. We may disagree with their conclusions, but we don't personally disagree."

In Geneva it has been presumed that the Clinton administration has been distracted by the Malta battle. Mr Kantor, however, insisted that US officials have been "busily engaged" in Geneva.

Other US officials say the numerous side deals which gave dozens of congressmen the political cover to support Malta are not likely to impede progress in Gatt. For example, President Clinton was pressed to seek a 15-year phase-out of textile quotas rather than the 10-year period contained in the negotiating text.

In a letter to textile interests, the president ultimately promised to "achieve the longest possible phase-out" and to ask Mr Kantor to explore the prospect of a 15-year phase-out with nations believed to favour it.

Mr Clinton promised to ensure that the impact of the Uruguay Round was eased as far as possible, "including specifically addressing the question of gradual and even staging of tariff reductions and quota integration."

## Thomson in UAE deal

Thomson-CSF, the French defence electronics company, has won a \$100m (\$87m) order to supply the United Arab Emirates with its PR4G radio system, writes David Buchanan in Paris. The system, also sold to the Netherlands, Spain and Switzerland, will be used in various vehicles, including the Leclerc tank ordered from Giat of France.

## US services push may backfire

By David Dodwell, World Trade Editor, in Geneva

US strong-arm tactics to press other countries to open their markets to trade in financial services are in danger of backfiring, as Uruguay Round negotiators in Geneva threatened this week to react by entirely withdrawing conditional market-opening offers.

"Other countries are simply going to follow the US lead and withdraw their offers in financial services," a senior negotiator in the General Agreement on Tariffs and Trade said yesterday. "It would be absurd for the US to throw everything aside because of problems it has with a tiny number of developing countries whose share of financial services business worldwide is negligible."

US banks, brokerages, and insurance companies would be among the main beneficiaries

worldwide of more open financial services markets and so would be main casualties if market-opening offers were withdrawn.

US officials have aroused controversy in the final stages of negotiation of the Uruguay Round talks on world trade liberalisation by demanding an exemption in financial services from the obligation to offer most favoured nation status to all-comers. The US plans to restrict full MFN access to its financial services markets to a small group of industrial countries that have similarly liberal banking and securities regimes. Other countries will have MFN rights limited to the rights that exist at present.

Improved access would depend on progress in liberalisation in their own market.

Observers have interpreted the move as a US effort to win improved market-opening

offers from countries like Japan, Korea, India, Singapore, Malaysia, Thailand, Indonesia and the Philippines.

"The US wants its cake, and wants to eat it too," said one Asian negotiator said: "It wants other countries to accept multilateral obligations to open their financial services markets, but wants to reserve its power to exert bilateral pressure. If it does not change its mind, we would have no choice but to do the same."

A senior Indian diplomat noted: "Just as the US is getting vastly improved offers in financial services, it is putting everything in jeopardy with their two-tier MFN proposal."

Many countries see the US threats as no threat at all: they see no prospect of seeking a presence in the US banking, securities or insurance markets, and are offering to open their financial services sectors

as a necessary price for better access to US and EU markets for products like textiles and farm goods. As it has become increasingly clear that the US and EU are unlikely to improve offers in these areas, so developing countries have become more reluctant to keep financial services offers on the table.

A spokeswoman for the US Coalition of Services Industries, which has lobbied hard for the past six years for a big financial services package in the Uruguay Round, said yesterday that she was "surprised and disappointed" by responses: "We have been very flexible, and have changed course as the world has said it is unable to live with the proposals the US has put forward."

It is late in the day to be doing this kind of thing, and I am not sure what pulling offers off the table will accomplish."

## Caribbean rum producers seek a fuller EU measure

France is being blamed for what is seen as foot-dragging on opening the market further, writes Canute James

CARIBBEAN rum producers have asked the European Union to increase the quota for rum they can ship duty free, and then to abolish the quota to end a shortage of the product in Europe.

A senior official of the European Commission said the rum quota would be increased by previously agreed levels next year, and the possibility of abolishing the quota would be studied. The producers say, they need more immediate action to end what they say is the disruption of the market.

The rum producers, part of the African, Caribbean and Pacific (ACP) group of countries, have criticised the EU for being slow to honour legal commitments to react by increasing the access for rum

to meet the growing demand. They say this is written into the Lomé Convention, a trade and aid treaty between the EU and the ACP. The current quota stands at 220,000 hectolitres a year, following a 20,000 hectolitres increase.

"To the extent that the consumption of rum increases significantly in the [Union], the [Union] undertakes to carry out a new examination of the annual rate of increase fixed by this protocol," says the convention.

Officials from the rum producing countries say that what is seen by many as the Commission's foot-dragging is the result of pressure from France which wants to protect its domestic rum industry in Martinique and Guadeloupe, its two Caribbean departments.

"Rum is the only industrial product covered by the Lomé Convention which is subject to quotas," says Mr Yesu Persaud, chairman of the Caribbean Association of Industry and Commerce. "Because of the quota system, the Caribbean rum industry is now experiencing serious disruption because the demand for rum in the [Union] has been growing rapidly."

Mr Peter Pooley, director general of the Development Directorate of the European Commission, has assured rum producers that the automatic quota increase of 20,000 hectolitres will be effected next year. "In February 1994 we will begin work a report on dismantling the rum quota," he said. One Caribbean official describes this as "cold com-

fort" to an industry that had a market "begging for the product but which is being obstructed for reasons known only to themselves" by the EU.

Before the Lomé Convention was agreed, rum from what are now the ACP states entered

Demand has been outstripping the quota for some years

Europe Unrestricted. There were no quotas, although the product was subject to duty. With the first Lomé agreement, France insisted on a quota for the quantity of rum that could be imported duty free, and this was written into the current

agreement. Demand for rum in Europe has been expanding steadily since 1989 when the EU legislated on the definition of rum, establishing that it had to be made from sugar cane. This destroyed a lucrative market for several other spirits which had been marketed in Europe as rum, and also drove counterfeiters out of the market.

"This growth has continued and is now outstripping the quota we have," says Mr Patrick Mayers, chairman of the West Indies Rum and Spirit Producers Association. "The quota was exhausted at the end of the quota year which ended in June, and will soon be for the current year."

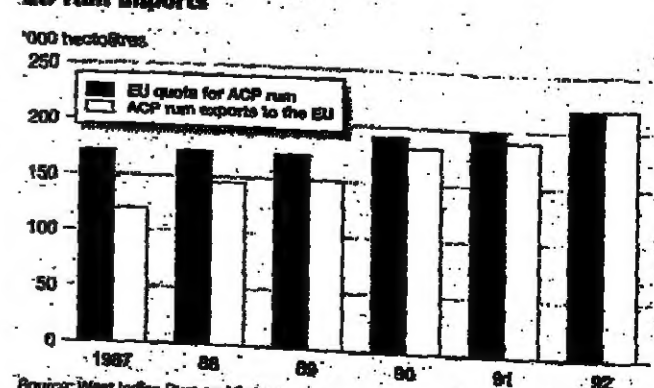
Mr Mayers says many European importers and distributors have told their Caribbean

suppliers to ensure that the problems of the last quota year are not repeated, as they would not be able to handle shipments which exceeded the quota. Such imports attract a "punitive" duty which makes the product too expensive to be sold, says Mr Mayers.

The automatic increase of 20,000 hectolitres which they will get next year is considered by the producers insufficient to resolve the problem. They say that the rate of growth of demand for rum in the EU will soon outstrip the increased quota, and that the situation will become tighter when new members join the Union.

The European market brings the Caribbean producers about \$20m (£13m) a year, and these earnings could increase significantly if access were to be

## EU rum imports



Source: West Indies Rum and Spirit Producers Association

improved, says Mr Mayers. Rum producers fear that a continued shortage of the product will lead European consumers to turn to other liquor, leaving rum a difficult task in

regaining market share if and when access for the product is increased either through higher quotas or an abolition of the quota.

itsen



which involve the construction of more than 20 reactors. At the very least Russia is likely to need World Bank help if it is to proceed.

In the Ukraine, unable and

and western nuclear scientists. Mr Bémy Carle, chairman of the WANO governing board and deputy general manager of Electricité de France, told the

economy, supplies of other fuels and other factors over which the nuclear industry has little control.

THE GROUP OF 77 AND CHINA  
A member of the G77 Group of Countries



## US figures reflect fall in mortgage rates Housing market recovers strongly

By Michael Prouse  
in Washington

A STRONG recovery is under way in the US housing market following reductions in mortgage rates this year to the lowest level in two decades, figures indicated yesterday.

The Commerce Department said housing starts rose by 2.7 per cent last month and by 14 per cent in the year to October. Officials revised up already strong figures for starts in August and September. Building permits also rose, pointing to continued strength of starts.

Most analysts expected only a marginal increase in starts last month given big increases earlier this autumn. Starts are now running at an annual rate of 1.4m, the highest level since February 1990, when the previous business cycle was approaching its peak.

Most of the strength was concentrated in "single family"

homes, which rose 5.8 per cent from September. Construction of apartments remains subdued, reflecting overbuilding in the 1980s and fewer young people seeking first homes.

The increase in starts was strongest in the Midwest, where rebuilding after flooding contributed to a 12.3 per cent increase from September. Starts rose only modestly in the west, because the Californian economy remains depressed, and fell in the northeast.

The starts figures are the latest in a series of economic statistics indicating that the pace of US economic growth is accelerating after a weak first half.

Starting in the new year, changes in the way the US Labour Department estimates unemployment will increase the official jobless rate significantly.

On the new definition, the

jobless rate averaged 7.6 per cent in the year to August, compared with the published figure of 7.1 per cent.

Officials said the female jobless rate had been seriously underestimated because many women seeking work had been wrongly classified as "homemakers". Using the revised series, the female jobless rate was 6.8 per cent in the year to August, not 6 per cent as previously reported.

The new unemployment series is likely to increase concern on Capitol Hill about lack of job opportunities and harden opposition to any early move by the Federal Reserve to tighten monetary policy.

The new series will come into effect with the release on February 4 of unemployment figures for January. The changed definition could increase the January jobless rate by anything from 0.1 to 1 percentage point.

## Bolivian workers agree to end strike

BOLIVIA'S government and unions have defused a conflict over the firing of state workers and agreed to resume talks on how to sort out the country's problems, officials said.

The agreement came after eight weeks of growing labour unrest which peaked in a national strike on Monday.

The deal was signed on Tuesday just hours after Bolivia's trades union federation, the COB, voted to suspend their indefinite strike which began at midnight on Sunday. The new centrist government, which had said it would not negotiate while the strike was on, agreed in return to reinstate 1,100 out of 10,000 workers sacked as part of plans to modernise the economy.

## Guatemalan reforms agreed

Guatemala's President Ramiro de Leon and Congress have reached a deal to reform the constitution, breaking an 11-week impasse that had brought the government to a standstill, Reuters reports from Guatemala City.

Under the agreement, congressional elections due to be held in 1995 will be brought forward as soon as legally possible, new appointments will be made to the judiciary, and a plebiscite will be held to approve the proposed constitutional reforms.

## Demjanjuk order revoked

A US federal appeals court yesterday overturned the 1987 order under which accused Nazi death camp guard John Demjanjuk was extradited to Israel and said government prosecutors committed a fraud on the court in obtaining it. Reuters reports from Cincinnati.

Mr Demjanjuk, 73, was freed by Israel after courts ruled that he was a victim of mistaken identity. He returned to the US in September.

## Nicaragua breaks aid logjam

By Stephen Fidler in London  
and David Scanlan in Managua

THE Nicaraguan government has agreed under pressure from the International Monetary Fund to take measures to raise tax revenues or cut spending, breaking a logjam which had been holding up flows of official finance to the country.

This initial agreement with the fund immediately paves the way for finance from the Inter-American Development Bank and Taiwan totalling about \$55m (£36.9m). It also clears the way for the arrival next week of a team from the IMF, to negotiate \$25m in concessional funding, and the World Bank.

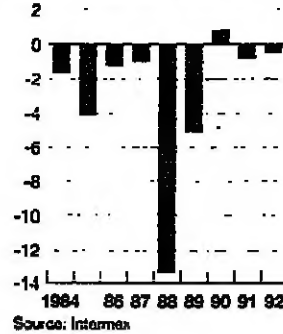
The IMF has been seeking government savings, either spending cuts or revenue increases, equal to 4 per cent of GDP. Earlier disagreements with the World Bank and IADB, which both saw this as too tight a policy for a war-damaged economy with single-digit inflation, seem to have been resolved.

If the IMF agrees to provide finance, under an Enhanced Structural Adjustment Facility used mainly by poor countries in Africa, it will clear the way for funds from the World Bank totalling some \$80m, some possible US finance, and some tied aid.

Nicaragua's foreign exchange reserves had fallen close to zero, with imports of around \$800m a year running at four times the level of exports. Inflows of official finance are essential to replenish reserves, since private investment is almost non-existent, because of the impossibility of enforcing property rights.

### Nicaragua

Real GDP, annual % change



Despite the advances in the negotiations, questions remain about the ability of President Violeta Chamorro's government to deliver on its promises. An earlier attempt to levy a vehicle tax was reversed this year after widespread protests.

The government has been seeking, so far unsuccessfully, to include representatives of the left-wing Sandinistas, the former guerrillas defeated in a 1990 election, in the negotiations with the IMF and World Bank.

Mrs Chamorro's government has been paralysed by the collapse of the conservative UNO coalition which swept her to power in 1990. The US suspended aid to Nicaragua last summer because of the continued heavy involvement in government of the Sandinistas, described by one US official as running a "state within a state".

More recently, the Sandinistas have attacked government plans to privatise several public utilities and Mrs Chamorro's insistence that Mr Humberto Ortega, brother of former Sandinista president Mr Daniel Ortega, step down next



Mrs Chamorro's government has been paralysed

year as head of the military.

The Sandinistas are also unlikely to find the IMF proposals acceptable. They have been seeking a relaxation of credit constraints which would particularly affect agriculture, and benefit, not coincidentally, many Sandinistas.

The Chamorro government has had startling success against inflation, bringing it

down to single digits from an annual 33,600 per cent in 1986 and 13,500 per cent in 1990. But with unemployment as high as 80 per cent and poverty worse than anywhere in the Americas except Haiti, austerity is unpopular. "We have just emerged from a decade of war. This policy ignores that," said Mr Oscar Rene Vargas, an economist in Managua.

## Mexico's intellectuals win back tax breaks

By Damian Fraser  
in Mexico City

MEXICO'S intellectuals have won a remarkable victory over the hardline technocrats in the finance ministry by gaining exemption from taxes on their artistic work.

President Carlos Salinas ruled in favour of the intellectuals on the eve of the US congressional vote on the North American Free Trade Agreement, doubtless hoping that Mexico's cultural elite would support him in his continuing quest to integrate Mexico with the US.

Since the 1910 revolution, Mexico's writers and artists have had a strong hold on the country's political conscience. But their tax break was abolished in 1980 by Mr Pedro Aspe, the orthodox finance minister, and a fervent oppo-

nent of tax advantages for special interest groups.

Ever since, intellectuals from right and left have fought for restoration of the exemption, which they believe is their historic right.

The tax break will help "artistic creation in Mexico, and that strengthens Mexican culture and national identity", a presidential spokesman said. "It is important for a country to stick to its identity and be close to its roots, especially in times of transformation."

The measure was backed by Nobel prize-winner Octavio Paz and the novelist Carlos Fuentes, who agree on little else but their right to be exempt from taxes.

The writers objected not just to paying the government money, but to filling in long and complicated tax forms. "It will help my mental stability,"

said Mr Carlos Monsiváis, a leading left-wing essayist. "I live in fear of the tax collectors. I spent one year trying to understand my forms and could not. I could not sleep."

A presidential aide sympathised, and said Mexican writers were not meant to understand tax forms. "This will put them in a better mood and unleash their creative energies," he said.

"The creators and authors have to steal time from nowhere to produce a poem, a work of history, a novel," said Mr Enrique Krauze, the conservative historian who usually supports free market economics.

"As an editor, or if I give a conference, I pay taxes. But if my work sells a book, I will not pay taxes, as has historically and traditionally occurred in Mexico."

## Boost for loans to Latin America

By David Pilling in Santiago

STABILITY and economic growth in Latin America is changing the way the Overseas Private Investment Corporation, the US political risk insurer, does business in the continent, according to Mrs Ruth Harkin, Opic president.

The organisation, 40 per cent of whose activity is in Latin America, plans to shift from insurance towards loans, raising the amount available for loan guarantees from \$50m (£33.5m) for each project to \$200m.

This will enable it to become involved in large projects such as the planned Argentina-Chile gas pipeline.

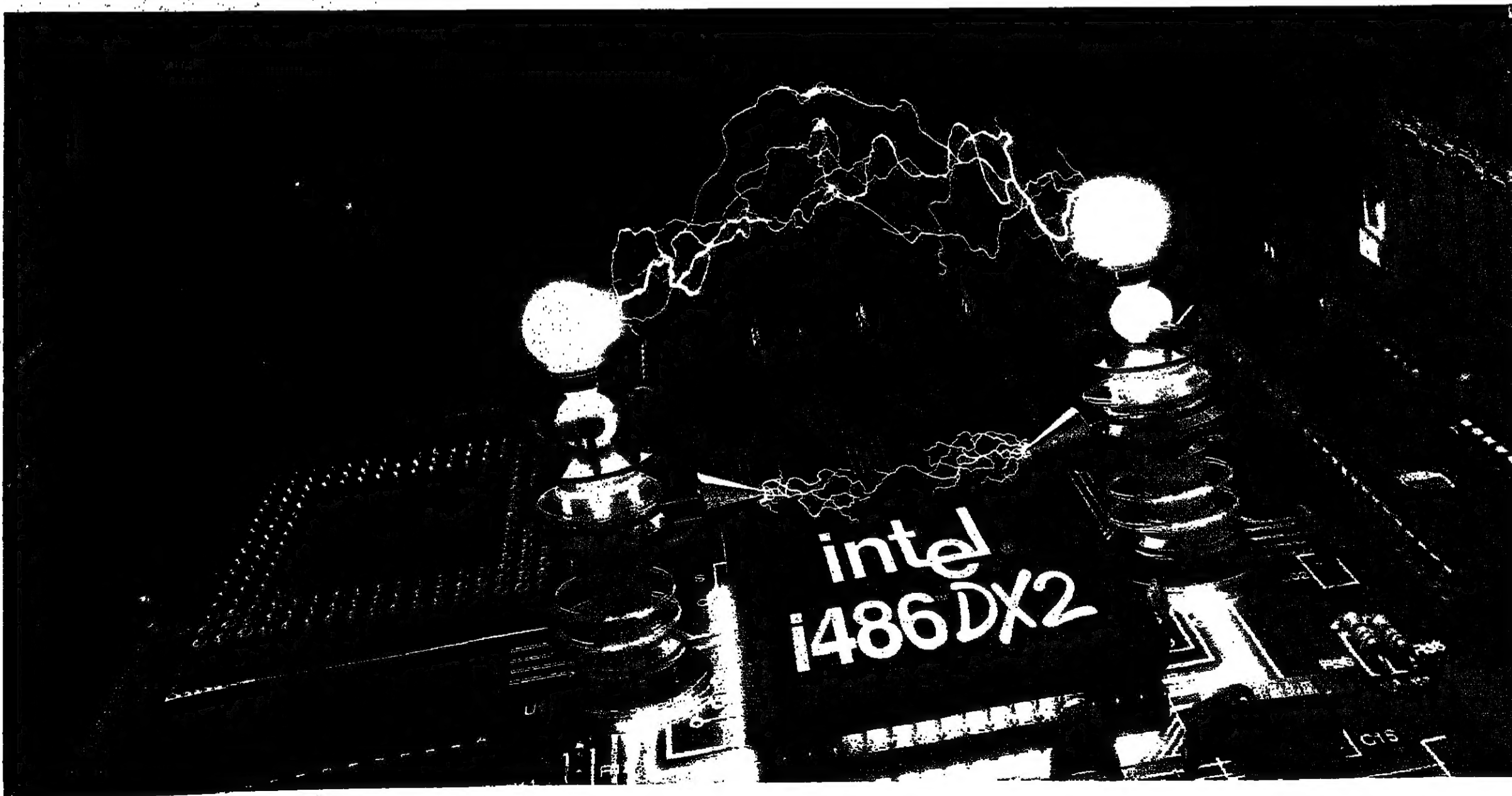
Compared with much of the group's portfolio, such as the former Soviet Union and Gaza Strip, "this region begins to look stable," Mrs Harkin said. "There is going to be less demand for insurance coverage but more for loan guarantees."

The organisation expects to offer at least \$1.7bn in insurance, loan guarantees and equity to support US private investment projects in Latin America this fiscal year,

against \$1.4bn in 1992-93. The figure could be "significantly higher," Opic said.

"In Latin America our relationship has matured and we feel comfortable about expanding and changing our role," added Mrs Harkin, who is leading an Opic mission to Brazil, Argentina and Chile focusing on environmentally-related business.

The Opic delegation, sponsored by 20 US companies including Chase Manhattan Bank, is the first to focus specifically on the environment, a sector growing by 25 per cent a year.



## The affordable power source in your PC to run today's software.



Today's user friendly software demands a lot of power. Power that Intel's i486 DX2 microprocessor can provide.

Whereas other systems slow down running multiple windows applications, the

Intel i486 DX2 is able to cope with ease. By using Intel's latest speed doubling technology.

Of course, it guarantees compatibility, as all of today's most popular software is designed to run on Intel microprocessors. It also generates enough power to cope with the next

generation of demanding software.

Performance, compatibility and room for the future - three powerful reasons to buy a PC with an Intel i486 DX2 inside.

For more information, simply post the coupon.

To: Intel Corporation, Customer Support Centre, Piper Way, Swindon, Wiltshire, SN3 1RJ. Please send me further information on Intel i486 DX2 processors.

Name \_\_\_\_\_  
Company \_\_\_\_\_  
Address \_\_\_\_\_  
Postcode \_\_\_\_\_  
Country \_\_\_\_\_

intel.



# LDP members told to vote against reform proposals

By William Dawkins in Tokyo

THE LEADERSHIP of Japan's divided opposition Liberal Democratic party yesterday called on members to unite and vote against government plans to clean up the scandal-ridden political system.

The call, by Mr Yohei Kono, the LDP president, is unlikely to upset the government's predicted victory in today's parliamentary vote to reform the electoral system and curb political donations.

Political observers expect the

proposals to get a four-to-five seat majority today, after which they pass to the upper house, the final hurdle before becoming law.

The upper house, where the seven-party coalition government also has a majority, is expected to take about a month to clear the proposals.

Prime minister Morihiro Hosokawa had hoped to reach agreement with the LDP, but he was forced to break with tradition and put the four reform bills to a vote after negotiations broke down on

Tuesday morning.

Later that day, the bills won a 20 to 19 majority in a parliamentary committee, opening the way for them to proceed to the full house.

Despite Mr Kono's attempt to restore party discipline, more than 10 LDP MPs are expected to vote for the government's plans.

Two to three times that number are thought to be considering leaving the LDP, which has 227 seats in the 511-seat lower house. That would seriously weaken the

LDP, which ruled Japan for 38 years until last July.

The coalition looked set to hold together in today's vote, despite the fact that amendments, made in an attempt to win LDP support, have offended some members of the Social Democratic party, the largest coalition member.

Socialist officials said three to four members might vote against the government despite calls for party unity, but this would not be enough to deprive the coalition of a majority.

## Emperor's MP wants to keep multi-seat system unchanged

By William Dawkins

MR KAORU YOSANO, a member of parliament for the Liberal Democratic party, was an unhappy man yesterday.

Mr Yosano, 55, represents the central Tokyo district which includes parliament and the emperor's palace. He is one of the mainstream of LDP politicians who will today vote against the government's plans for political reform.

Mr Yosano, winner of six elections and former vice-minister of the ministry of international trade and industry, argues that the proposed shift from multi-seat constituencies to single seats will worsen, rather than lessen, the corruption which has discredited the political system.

"It's just going to accelerate

hidden competition. Small boroughs are all very well when each party has different policies. But the policies of the LDP have been carried over exactly by the new government, so people will find it very hard to differentiate between parties," he says.

He says this will intensify what he euphemistically calls "service competition".

Instead, he would prefer the present multi-seat constituency system to remain intact. Reform should, for the moment, be limited to a bill to curb corruption, he believes.

"After all, it took Britain 400 years to bring about political reform."

The outlook for the opposition LDP is bleak, Mr Yosano admits. "At least half the party membership feels as I do, but we are being carried

away by the wave of the age... It is too late to argue, so we will not argue any more," he says gloomily.

He knows the LDP will be outvoted in the lower house and fears it will lose "almost all" its urban seats in the election to be held next year, if the coalition manages to field single candidates under the new system.

Holders of large constituencies such as his own, which has more than 500,000 inhabitants, will find it particularly hard to raise enough campaign cash to fight an election, under tough new curbs on political funding.

"Money will be very difficult to obtain from companies. So we will have to rely more on personal donations, which will be difficult in the current atmosphere in Japanese

society," he says, referring to the outrage aroused by years of political corruption.

The average candidate needs ¥30m (£188,600) to run a 14-day election campaign, and far more to finance the months of preparation required, he estimates. However, Mr Yosano is unwilling to put a figure on his own election expenses. "Do you want me to confess?" he laughs.

Mr Yosano plans, at least for the time being, to stay loyal to the party and to his LDP faction, led by Mr Michio Watanabe, the veteran former foreign minister who opposes reform.

# Bolger to form a government but says 'I got the message'

PM's party scrapes home by one seat after New Zealand's voters show their weariness with reforms. Terry Hall and Reuter report

NEW Zealand's conservative National party yesterday secured the majority - albeit a "wafer-thin" one - that it needs to form a government and prime minister Jim Bolger said he could govern for a full three-year term.

But he indicated that his government would slow down its reform programme, saying the electorate had given the party a "pretty clear message about what it thought of them".

The counting of special votes from absentee electors gave the National party the one extra seat it needed for an overall majority, ending the political stalemate created 11 days ago when a general election delivered a hung parliament.

The vote count lifted National to 50 seats from 49 on election night in the 99-seat parliament, with the Labour opposition dropping to 45 from 46 and the two minor parties steady on four seats.

Mr Bolger said he was delighted the stalemate was over but understood the message voters sent his government when they cut its majority from 34 seats.

In an interview, he said he had repeatedly pointed out during the election campaign that the government had completed most of its reform plans during the past three years.

Mr Bolger indicated that, because of his party's small majority, he would try to involve the opposition in some sort of consensus on policy, although he said it would not



Bolger: 'we can govern for three years'

be possible to "run around" and consult them on every issue.

"There will be some topics such as employment that we'll want to discuss with them," he said.

Financial markets echoed Mr Bolger's delight with the result. The New Zealand dollar rose a full cent to US\$0.5500 and the share market ended almost 5 per cent up on the day.

Last week both local and international investors reacted badly to the hung parliament and the voters' decision to change to a proportional representation electoral system.

The huge inroads into National's majority and support for the left-leaning Alliance and populist New Zealand First parties were seen as a rebuff to free-market policies that both National and Labour governments have pursued since 1984.

The slender majority is expected to make for parliamentary difficulties for Mr Bolger as opposition parties are expected to demand that National provides a Speaker, who does not normally vote.

This would leave National with 49 voting MPs, the same as the opposition parties. Under recent changes the Speaker can vote with the government on minor matters but cannot support issues that he believes parliament as a whole would not approve.

The leader of the Alliance, Mr Jim Anderton, said last night his party, which won two seats, would honour its promise to support the government on motions of confidence.

Labour leader Mr Mike Moore congratulated National on its win but said his party would keep up pressure to moderate National party legislation on such things as trade union legislation.

Mr Bolger last night refused to say whether the finance minister Ruth Richardson would continue in the post in the new government. Both the Alliance and Labour have criticised her "New Right" views, and hinted that they would have difficulty working with her in the new "consensus" politics.

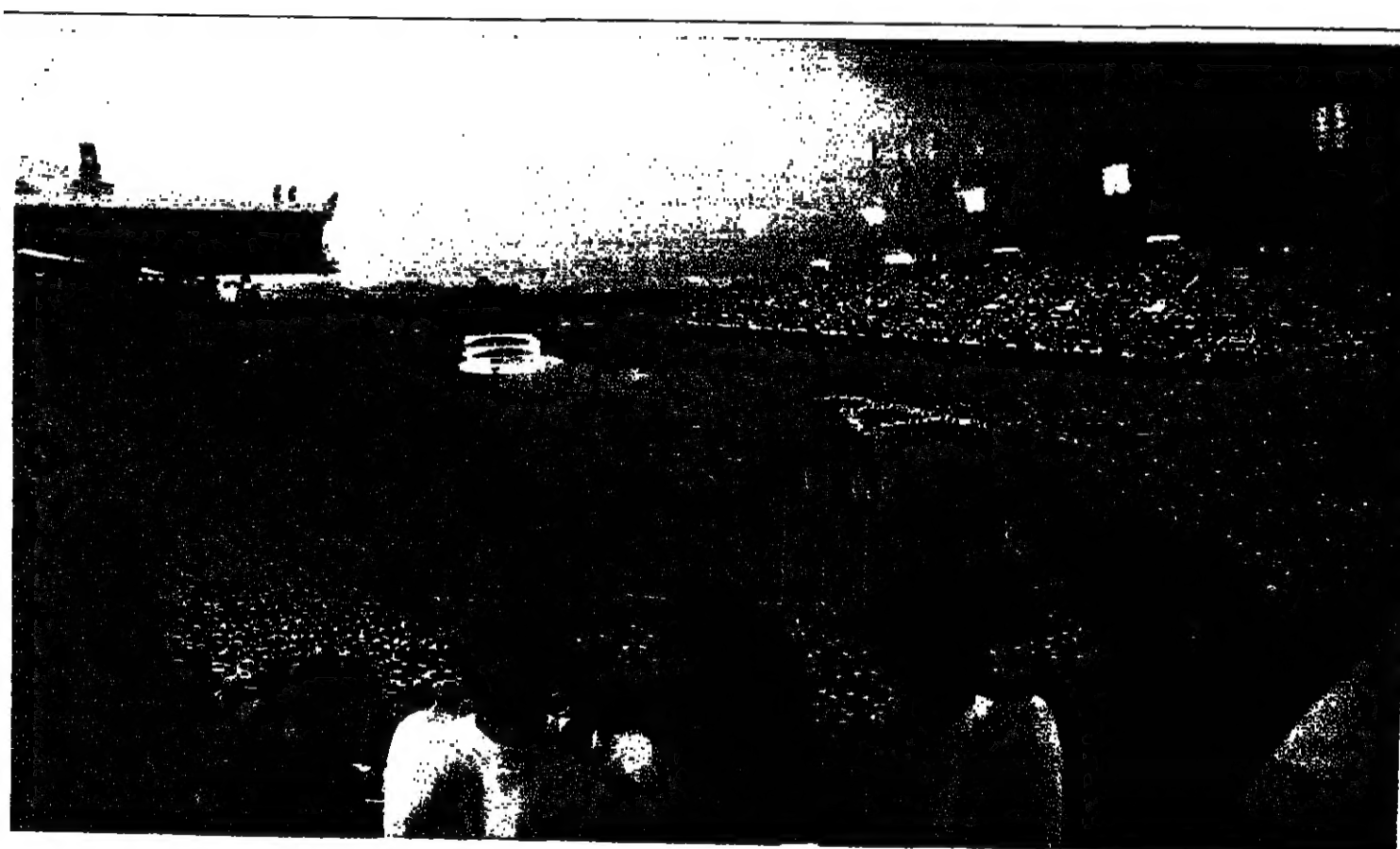
Ms Richardson says she wants to stay and Mr Bolger will have to take into account her popularity in the financial markets.

Mr Bolger yesterday reversed his earlier decision not to attend the meeting of Pacific Rim leaders at this week's Asia Pacific Economic Co-operation conference in Seattle.

He said he would fly to the conference today and return next Tuesday to form his administration. He said he would not call parliament until immediately before Christmas.

One of the biggest problems for the government over the next three years will be potential rebellions by its own members, three of whom are known to disagree strongly with a number of its policies.

Yesterday, in a hint of what may be to come, one of National's most outspoken MPs, Michael Laws, threatened to resign if the government allowed an apple exporting company, Applefields, to break the Apple and Pear Board's monopoly on selling fruit overseas.



## You want a meeting for how many people?

Conferences. Conventions. Sales meetings. Spain can accommodate all manner of business gatherings • The organizational flair that played host to the world at the Barcelona Olympics, Expo'92 in Seville and in Madrid as European Capital of Culture, is ready and waiting. As is a network of hotels boasting all the latest conference facilities and communication technology • And Spain has one or two other business incentives • A pleasant all year climate. A menu of gastronomic delights. And a wine cellar the envy of Europe • Plus some of the finest museums and galleries in the world. And things with a peculiarly Spanish flavour. Like the neighbourhood fiesta • In Spain, the bottom line is always the same • A conviction that work and leisure aren't mutually exclusive.



**BREITLING**  
1884  
INSTRUMENTS FOR PROFESSIONALS

**CHRONOMAT**  
Close cooperation with pilots and aviation experts enables Breitling to continue improving its chronograph design all the time. The Chronomat features a self-winding mechanical movement, a rotating bezel and a screw-locked crown. This instrument is water-resistant down to 100 meters.

BREITLING MONTRES SA  
P.O. Box 1132  
SWITZERLAND - 2540 GRENCHEN  
Tel.: 05/51 11 31  
Fax: 05/53 10 09

The Financial Times is the most influential publication in the world.

# Sweden

More senior European executives who are personally involved in strategic decisions about their organisation's international operations read the FT than any other European business publication. (Source: 1992)

If you wish to communicate your message to this influential audience by advertising in the Survey, contact:

**BERRADLEY JOHNSON**  
In Stockholm  
Tel: 46 8 791 2295  
Fax: 46 8 791 7560

**KIRSTY SAUNDERS**  
In London  
Tel: 071 873 4823  
Fax: 071 873 3934

**FT Surveys**

A member of the GEC Group of Companies

**ITSELF**

which involve... of more than 20 reactors. At the very least Russia is likely to need World Bank help if it is to proceed. In the Ukraine, unable and

and western... Mr Remy Carle, chairman of the WANO governing board and deputy general manager of Electricite de France, told the

economy, support... fuels and other factors over which the nuclear industry has little control.





Facing the future together: black and white children at a multi-racial school in a Johannesburg suburb

# Dawn of the new South Africa

## Last-minute climbdown by De Klerk seals deal on constitution

By Patti Waldmeir in Johannesburg

IT HAS BEEN one of the most extraordinary revolutions of modern times: a negotiated revolution, which was last night drawing to a close as South African politicians put the final touches to a constitution to end 350 years of minority government and replace it with majority rule.

After a dramatic last minute capitulation, the ruling National Party accepted a provision of the constitution which effectively strips the white minority of almost all entrenched powers in the proposed government of national unity.

President F W de Klerk, who has promised since the day he took office that he would never allow majority domination to replace minority rule, clearly decided sometime on Tuesday night or Wednesday morning that voluntary power-sharing was the way to achieve this - not the kind of entrenched co-rule which his supporters have long been promised.

National Party ministers will serve in the new cabinet, in proportion to their share of the national vote in the April 27 elections; they may well control pivotal ministries such as finance. But when it comes to decision-making in cabinet, the

president (likely to be Mr Nelson Mandela of the ANC) will ultimately decide. He will try first to seek consensus on his decisions "in the spirit of national unity", but when the chips are down, his will shall prevail, and the National Party will be powerless to stop him.

Until late on Tuesday night, Mr de Klerk had been insisting that this would not be so: where consensus could not be reached in cabinet, a 2/3

acknowledge that their role in cabinet will depend on the goodwill of Mr Mandela, and repeatedly stress their reliance on the "spirit of reconciliation" which has developed, especially over the past year, between politicians from opposing sides.

They believe the National Party does not need entrenched constitutional provisions to play a powerful role in restraining the ANC: the ANC has assured Mr de Klerk

rest of Africa suggest that powerful ruling parties tend to abuse their power, unless forcefully prevented from so doing.

Mr de Klerk promised last week that "only the National Party can stand fast against the lust for power of the ANC": that claim is substantially undermined by last night's agreement, which could further strain National Party support which stands at only 11 to 13 per cent in recent polls. One political commentator assessed the deal in this way: "If the ANC believes the National Party are gatekeepers to white confidence, they'll stick to the deal. If not, they won't. At the end of the day it will depend on politics, not the rules."

Negotiators argued last night that this much weakened form of power-sharing is part of a larger package which provides other safeguards against the abuse of power: a bill of rights, a second chamber in the legislature which provides for regional representation, a guarantee that the government of national unity will remain in force for five years, and agreement that a final constitution (to replace the document now being finalised) must be passed by at least a 60 per cent majority.

But overall, the National Party has settled well below its bottom line on checks and balances. The party's 1991 constitutional proposals called for political power to be divided between three tiers of government - central, regional and local - with each tier to have "original and entrenched authority with which other tiers of government may not interfere".

In fact, central government retains wide powers to "interfere" with regional governments: though the regions (to be called provinces) are to be granted primary responsibility for areas such as primary and secondary education, housing, health, policing, etc, central government reserves the right to intervene in these areas to impose uniform national standards, to ensure proper regulation, to protect the national economy or national security, and where there are implications for national economic policy; in short, the constitution authorises central government to intervene in terms so vague as seriously to undermine regional autonomy. And with regions barred from imposing taxes without central government approval, it is hard to accept Mr de Klerk's claim that the new state will be "federal".

In the end, democracy in South Africa may well only be viable if the stakes attached to winning or losing an election are reduced, and that can only happen if losers continue to have a powerful say in government.

## PLO's cash crisis 'threat to peace process'

By Julian O'Connell in Paris

THE financial crisis in the Palestine Liberation Organisation could jeopardise the Israeli-Palestinian peace process, Mr Ahmed Qurei (Abu Ala), the PLO economics chief, warned yesterday.

Mr Qurei said the PLO had been unable to meet its operating expenses for the past five months, adding that the crisis has been absorbing the time of the PLO leadership at the expense of work on implementing the peace process.

The strike at the PLO's Paris office during Mr Qurei's visit to the capital illustrates the organisation's financial paralysis. All inquiries about the visiting Palestinians were dealt with by the Israeli embassy.

"We are completely unable to face our commitments and obligations to our embassies, departments and the institutions like universities, trade unions and chambers of commerce which form the backbone of Palestinian social life," Mr Qurei said. "And the crisis comes as we are facing the challenge of creating new institutions for the peace. (Yassir) Arafat is finding it difficult to lead the peace process in a courageous way when he cannot even pay his bodyguards standing in the front of his office."

Mr Qurei said the minimum annual operating budget of the PLO before the peace agreement was \$120m, but that the organisation was now virtually bankrupt. Donors had made promises but had not yet delivered aid for operating costs.

Mr Qurei, 56, an Arafat loyalist who was the key Palestinian negotiator in the Oslo talks which produced the peace accord, said the PLO was determined to lay the embryonic economic framework for an independent Palestinian state. "All the economic institu-

tions will be the institutions of a sovereign state but we will be realistic about what is possible today, tomorrow or the day after tomorrow but the decisions of when to create the institutions will be ours and will be made on financial and economic grounds," he said.

Mr Qurei said the greatest challenge in the economic talks with Israel would be a trade agreement which respected the Palestinian integration in the Arab and Islamic world and particularly the PLO's intention to sign a free trade agreement and open borders with Jordan.

Mr Qurei confirmed reports of a serious internal debate within the PLO over the shape of the institutions that will handle the transition to self-government in the occupied territories. The rift reportedly pits Mr Mahmoud Abbas (Abu Mazen), the man who signed the peace accord in Washington, and Mr Qurei against Mr Arafat who is reluctant to release his absolute control over all PLO institutions or admit new professional people who do not have a political background.

"Palestinians are now looking for clean institutions, more democracy," he said. "We are coming to a new stage with new responsibilities and it is normal that there will be different points of view. But it will be resolved in a democratic way within the PLO."

Mr Qurei is looking forward to returning to his home in Abu Dis, near East Jerusalem, which he last visited in 1988. But like many PLO exiles who have devoted most of their life to the bureaucratic work of the liberation movement he admits little personal feelings. "I am like all Palestinians in exile who hope to go back to their land and live in peace, stability and democracy."

## UN to end hunt for Aided

By Michael Littlejohns, UN correspondent, in New York

The UN Security Council voted unanimously early yesterday to call off the hunt for General Mohammed Farah Aided, the Somali warlord whose followers were blamed for attacks on international peacekeepers. The decision was in response to an abrupt shift in US policy after 17 American soldiers were killed on October 3 in a clash with Gen Aided's forces.

Adm Jonathan Howe, UN special representative in Somalia, had offered a \$25,000 (\$18,778) reward for capture of the warlord. Without naming Gen Aided, the resolution sought suspension of "arrest actions against those who might be implicated," pending a report that will determine responsibility for repeated attacks on UN troops.

Mrs Madeleine Albright, the US delegate, said the goal now must be to foster a political dialogue leading to national reconciliation. Gen Aided had refused to co-operate in peace-making efforts while a wanted man and the council now hopes he will change his mind. Seven Nigerians and 34 Pakistanis serving with the force have also been killed in attacks by Somalis.

## Nigeria in new bid to end strike

By Paul Adams in Lagos

THE INTERIM government of Nigeria yesterday moved its talks with the unions from Lagos to Abuja, in a bid to end a general strike over higher fuel prices. The military-appointed government is expected to offer public-sector workers a rise in transport allowances to offset higher living costs.

Last week it imposed a 600 per cent increase in fuel prices, which it says is necessary to wipe out public-sector deficits and restore the state-owned refineries to working order.

The Nigeria Labour Congress' strike call has been largely ignored in the north, where fuel prices have been high for over a year.

The main impact of the strike has been on public transport, domestic airlines, manufacturing industry, the port at Lagos and the big banks. Banks and shops were closed in many states yesterday and traffic remained light.

There has been no disruption to oil production. "My union will strike when the time is right," said Mr Frank Kokori, head of Nupeng, the oil workers' union. "The fuel price is a sideshow, the real issue is Nigeria's political instability."

## From Zulu wars to multi-racial power-sharing

### End of 350 years of white domination

1652 Dutch East India Company establishes post at the Cape  
1816-28 Zulu kingdom rises under King Shaka  
1836-40 Afrikaner farmers stage the Great Trek away from British rule  
1838 Afrikaners defeat Zulus at Battle of Blood River  
1899-1902 Anglo-Boer war ends with Afrikaner defeat  
1910 Union of South Africa, parliament limited to whites

1912 South African Native National Congress, first national African political movement formed, later renamed ANC  
1913 Africans limited to land ownership in 7 per cent of South Africa  
1914 National Party formed  
1921 South African Communist Party formed  
1936 Native reserves increased from 7 to 13 per cent of all land  
1948 National Party wins surprise victory, introduces apartheid which codifies and expands racial segregation  
1950 Population Registration Act passed, classifying people by race; Group Areas Act enforces residential segregation  
1952 ANC launches non-violent defiance campaign  
1960 police kill 69 unarmed Africans in Sharpeville; ANC and PAC banned  
1961 South Africa leaves Commonwealth, ANC abandons policy of non-violence  
1964 Mandela and other ANC leaders sentenced to life for sabotage  
1976 Soweto uprising, 1,000 protesters killed over following months  
1977 Steve Biko, black consciousness leader, dies after police beatings  
1978 FW Botha becomes Prime Minister  
1979 African trade unions legalised  
1982 Conservative Party breaks away from National Party  
1983 launch of United

Democratic Front, umbrella anti-apartheid group  
1984 tri-cameral parliament set up with separate white, coloured and Indian houses; prolonged violence in black townships  
1985 state of emergency imposed; President Botha delivers "Rubicon" speech rejecting calls for change; debt moratorium imposed after overseas banks refuse to roll over loans; white South Africans hold talks in Zambia with ANC; press censorship imposed  
1986 repeal of pass laws, which restricted African freedom of movement  
1989 PW Botha suffers stroke and resigns; Botha meets Mandela in Cape Town before leaving office; National Party wins general election, FW de

Klerk becomes president; De Klerk allows first mass protest marches; Walter Sisulu and other ANC leaders released from prison  
1990 De Klerk unbans ANC, PAC and SACP; Nelson Mandela released after 27 years in prison; first formal talks between ANC and government; nationwide state of emergency lifted; repeal of separate amenities act; ANC/Inkatha fighting spreads to Transvaal; ANC suspends armed struggle  
1991 De Klerk announces repeal of apartheid laws; Winnie Mandela found guilty of kidnapping and accessory to assault; "Inkathagate" scandal over secret government funding to Inkatha; National Peace accord signed  
1992 whites vote by a large majority to end apartheid in a referendum; constitutional

negotiations stall when "Codesa" breaks down; Boipatong massacre leaves 40 ANC supporters dead; ANC holds mass action campaign, including general strike; 24 killed when troops open fire on ANC demonstrators in Ciskei homeland; Government releases political prisoners, bilateral talks resume  
1993 ANC and Government agree on five-year multi-racial power sharing; multi-party democracy talks resume; ANC leader Chris Hani assassinated; multi-racial elections set for April 27, 1994; Inkatha and right wing withdraw from multi-party talks; Transitional Executive Council approved at multi-party talks, bringing blacks into central government for the first time; international economic sanctions lifted.

The Financial Times plans to publish a Survey on

## International Legal Services

Friday January 21

It will examine the challenges which the new global economy has created for law firms, and its implications for the international business community.

The Survey will be seen by nearly a quarter of all senior business people throughout Europe who are involved in appointing outside legal advisers for their company.

For an editorial synopsis and information on advertising opportunities please contact:  
Daisy Veeringham on 071-873 3746

© 1993, Corporate Business Readiness Survey 1993

**FT Surveys**

Have your  
Financial Times

**HAND DELIVERED**

In Singapore

Call: MPH Distributors (S) Ltd  
MPH House  
12 Tagore Drive  
Singapore 2678  
Tel: 44538200 Fax: 4570314

**FINANCIAL TIMES**  
LONDON · PARIS · FRANKFURT · NEW YORK · TOKYO

## A Pharmaceutical Market Boom?

Climb the Great Wall...

- Approximately 1 in 5 people in the world are Chinese
- China is set to become a major economic power
- Per capita government healthcare spending will quadruple by 2000
- One of the top 10 pharmaceutical markets in the world
- China pharmaceutical market - forecast to grow to US\$ 5.3 billion by 1997.

"China - A New Beginning"

A strategic assessment of the dynamic Chinese pharmaceutical market, up to 1997.

中国一个新的开端



**RESEARCH CONSULTANTS INTERNATIONAL**

Contact: Christine A Schwets, Marketing Department, UK, Tel +44 81 668 1212, Fax +44 81 866 7987



# Inflation fall boosts hopes of rate cut

By Emma Tucker,  
Economics Staff

A SHARP DROP in UK inflation last month, together with disappointing growth in shop sales, yesterday revived hopes that Mr Kenneth Clarke, the chancellor, will cut interest rates at or around the Budget.

Intense price competition, particularly among food retailers, pulled the retail price index down by 0.1 per cent in October, cutting the annual rate of inflation to 1.4 per cent last month from 1.8 per cent in September.

The index, excluding mortgage interest payments, also dropped 0.1 per cent on the month, returning the year-on-year rate of underlying inflation to a 9.8 per cent low reached in May of 2.8 per cent. This compares with 3.3 per cent in the year to September and the government's 4 per cent ceiling.

The fall in the headline rate means inflation has now been below 3 per cent for 10 consecutive months, the longest run below this level since 1960.

The sluggish picture on prices coincided with and reflected other official figures out yesterday that showed retail sales growth slowing in

October. Together the figures underlined the patchiness of the recovery and consumers' reluctance to spend.

Last month, retail sales volumes rose a seasonally adjusted 0.1 per cent compared with the previous month to stand 3.3 per cent higher than a year ago. This was the lowest year-on-year rate of growth for five months.

Share prices rose on heightened expectations that bank base rates may be cut from the 6 per cent level set in January. The FT-SE 100 share index closed up 22.5 at 3,120.0. Gilts prices rose about a point in

response to the low inflation figures. But interest rate speculation hit sterling, which closed down a penny at DM2.5175 and was almost a cent weaker at \$1.4770. Mr Stephen Dorrell, the financial secretary to the Treasury, said the figures showed that the UK had a "once in a generation" opportunity to break out of inflationary cycles that have dogged it in the past.

But the weakness of shop sales is likely to increase pressure on Mr Clarke to minimise Budget tax rises for fear of damaging demand.

The latest drop in inflation reduces the chance that underlying inflation - the RPI excluding mortgage interest payments - will breach the government's 4 per cent target ceiling over the next few months. The outlook, according to the Central Statistical Office, is that inflation will remain subdued as big retailers compete to slash prices.

The most buoyant area of retail sales was household goods, which were 2.3 per cent higher in the latest three months, compared with the previous three month period. Compared with a year ago, they were 10.1 per cent higher.

that the report was an interesting contribution to what will be a lengthy debate on the future of the Bank and that Mr Kenneth Clarke, the chancellor, would not pass judgment before the debate was concluded.

Although Mr Clarke has given the Bank more freedom of action for attacking inflation, he made clear this week that he is not convinced that it should be independent.

Officials at the Bank pointed out that its priority is to achieve price stability, and independence will only be possible if the British people and parliament want it.

The next stage in discussions about the Bank will come with the publication of the TSC's own report on its future, possibly before Christmas.

**Blueprint for a more independent Bank**  
Peter Norman reports on a high-level contribution to the great debate on the British central bank

"has so far had an easy ride", the report's authors say that now is the best time to equip Britain with a stronger monetary anchor before inflation reappears. The best available anchor is a more independent Bank of England, it says.

The panel, which included an expert in constitutional law and a former Bundesbank director, has attempted to take account of the UK's history of high inflation in recent decades and its powerful parliamentary institutions. It has therefore rejected the German approach to central bank independence, which relies on the Bundesbank's strong counter-inflation reputation and gives it a free hand in implementing policy, and the New Zealand system of a legal framework of contracts to govern the setting



The image of a cycling student, complete with a gentle wicker basket, is as much part of Cambridge as its ancient colleges, Jim Kelly writes. With Oxford and York, the city boasts a huge two-wheeled population thanks to narrow streets, a flat landscape, and tight timetables to meet. But now Cambridgeshire County Council has decided to continue a ban it introduced in 1991, preventing cyclists from using two central streets in the interests of safety. The decision comes amid a heated row between "town and gown", with the local paper running a headline "Too Push To Walk" and one campaigner said it was like depriving Venice of its gondolas. But Cambridge will no longer welcome bicycles between 10am and 4pm, on Sydney Street and Market Street

## Turnover up at London exchange

By Norma Cohen,  
Investments Correspondent

SHARPLY higher turnover on the London Stock Exchange in the six months ended June 30 led to a 4 per cent rise in income to £28.1m from £24.5m the year before.

After costs, which include a £10.3m charge related to development costs of the system designed to replace the SEAQ

price display system, the exchange's operating surplus was £8.6m, up sharply from a £1.5m loss the year before. The 1992 results included a £13.5m charge relating to the development of the now-abandoned Taurus paperless settlements system.

New equity issues raised £8.6bn in the period, more than double the level of the first six months of 1992 and

settlement activity was 17 per cent higher. Turnover in UK equities rose by 24 per cent to £263bn and overseas equities trading rose by 81 per cent to £296bn.

The exchange said that it expects its costs in the second half of the year to closely match its income, thus leading to a small surplus for the year as a whole.

Also, the exchange noted that its tax charge of £7m is disproportionately high in relation to the pre-tax surplus.

"This arises because a significant proportion of our expenditure is not allowed against current income for tax purposes," the exchange said. It will only enjoy a reduced tax rate if sufficient taxable profits are earned in future years.

## New powers sought to cut red-tape

By Roland Rudd

THE UK Department of Trade and Industry is to receive sweeping new powers enabling it to repeal hundreds of regulatory measures without having to refer to parliament.

The new powers will be contained in a deregulation bill, to be announced in today's Queen's Speech - the traditional government announce-

ment of proposed future legislation. While the details of the draft legislation will remain under wraps until later next month, Mr Neil Hamilton, minister of corporate affairs, said the government planned to get rid of "hundreds of regulations" without seeking primary legislation.

In a recent interview with the Financial Times, Mr Hamilton, who is spearheading the government's deregulation initiative, said: "We are planning to clear out the accumulated dross of a number of bills without seeking primary legislation which would clog up parliament."

The minister made it clear that the DTI would have new powers to repeal by order many statutory instruments, which allow ministers to make

regulations without the specific order of parliament. Mr Hamilton was scathing about many of the country's "unworkable regulations" which he said had become an unbearable burden on business. He also singled out the Financial Services Act, which underpins regulation of financial and business activity in London, as having given rise to many non-statutory rules.

One of the most beautiful areas of Great Britain. Granted.

In August, the Government conferred Assisted Area Status on Weymouth and Portland and proposed Rural Development Area Status for South Dorset.

This is not the only good news for businesses relocating to Dorset.

We are also able to announce the formation of SDEP, the South Dorset Economic Partnership.

Its brief is to co-ordinate inward investment and to help you along every step of the way.

South Dorset can now do much more for your business than it could ever before.

But a government grant and a helping hand are not the only things you'll be looking for.

In South Dorset skilled and willing hands will be released onto the job market over the next few years as a result of defence restructuring.

They have skills in electronics, high-tech engineering and telecommunications.

So an Area of Outstanding Natural Beauty is now also an area with outstanding benefits for your business.

If you would like to know more please call us on 0305 767766 or return the coupon.

Please send me further information on South Dorset.

NAME \_\_\_\_\_  
COMPANY \_\_\_\_\_  
ADDRESS \_\_\_\_\_  
DAYTIME TELEPHONE NUMBER \_\_\_\_\_

South Dorset Economic **sdep** Partnership

Send this coupon to:  
South Dorset  
Economic Partnership,  
PO Box 2001, Weymouth,  
Dorset, DT4 8YR.

With you every step of the way.

Frühstück

The Financial Times is now hand delivered to 112 cities in Europe.

If you live or work in any of the 112 cities listed below, you can now have your copy of the Financial Times delivered to you direct. At no extra charge.

For more information about subscribing, call Karl Capp on 0130/5351. Alternatively, fill in and return the coupon below to: The Financial Times (Europe) GmbH, Mr. Karl Capp, Nibelungenplatz 3, 60318 Frankfurt. Or fax it to us on 069/5964481.

Aachen	Dortmund	Frankfurt-Höchst	Hann	Kaiserslautern	Mannheim	Paderborn	Stuttgart
Augsburg	Dresden	Frankfurt/M.	Hamburg	Karlsruhe	Münster	Potsdam	Stuttgart
Bad Vilbel	Düsseldorf	Freiburg	Hannover	Köln	Regensburg	Regensburg	Stuttgart
Bad Homburg	Eisenach	Friedrichsdorf/Ts.	Hatzenberg	Königsberg/Ts.	Rostock	Rostock	Stuttgart
Bad Soden	Erfurt	Friedrichshafen	Hofheim	Kronberg/Ts.	Saarbrücken	Saarbrücken	Stuttgart
Berlin	Erlangen	Fürth	Hofheim	Kronberg/Ts.	Schweinfurt	Schweinfurt	Stuttgart
Bielefeld	Erfurt	Geselskirchen	Hofheim	Kronberg/Ts.	Schweinfurt	Schweinfurt	Stuttgart
Bildingen	Erfurt	Geselskirchen	Hofheim	Kronberg/Ts.	Schweinfurt	Schweinfurt	Stuttgart
Böblingen	Erfurt	Geselskirchen	Hofheim	Kronberg/Ts.	Schweinfurt	Schweinfurt	Stuttgart
Bonn	Erfurt	Geselskirchen	Hofheim	Kronberg/Ts.	Schweinfurt	Schweinfurt	Stuttgart
Braunschweig	Erfurt	Geselskirchen	Hofheim	Kronberg/Ts.	Schweinfurt	Schweinfurt	Stuttgart
Bremen	Erfurt	Geselskirchen	Hofheim	Kronberg/Ts.	Schweinfurt	Schweinfurt	Stuttgart
Darmstadt	Erfurt	Geselskirchen	Hofheim	Kronberg/Ts.	Schweinfurt	Schweinfurt	Stuttgart
Dierdorf	Erfurt	Geselskirchen	Hofheim	Kronberg/Ts.	Schweinfurt	Schweinfurt	Stuttgart

Name and Address \_\_\_\_\_  
Telephone No. \_\_\_\_\_  
VAT Reg. No. (if applicable) \_\_\_\_\_  
I/We wish to start my/our subscription to the Financial Times from:  
Monday to Saturday - 6 months - DM 390.00 ☐ Monday to Saturday - 12 months - DM 700.00 ☐ Please bill my address as shown ☐  
☐ Please find enclosed my cheque for \_\_\_\_\_ (payable to Financial Times (Europe) GmbH)  
☐ Please debit my AMEX/DINERS/EUROCARD/VISA account (delete where not applicable) \_\_\_\_\_  
Expiry Date \_\_\_\_\_ Signature \_\_\_\_\_ Date \_\_\_\_\_

Financial Times. Europe's Business Newspaper.



which involve the construction of more than 20 reactors. At the very least Russia is likely to need World Bank help if it is to proceed.

Mr Remy Carle, chairman of the WANO governing board and deputy general manager of Electricité de France, told the

economy, supplies of other fuels and other factors over which the nuclear industry has little control.

A member of the GEC Group of Companies











## MANAGEMENT: MARKETING AND ADVERTISING

Ten years ago Roger Enrico, then president and chief executive of Pepsi-Cola, was talking excitedly to the company's chairman, Don Kendall. "There's this young fellow Michael Jackson. He's a singer and he's very, very hot. And we think we can get him - and his brothers - to be in our advertising."

"I've had them checked out. The reports came back sterling. These people haven't been near alcohol, much less drugs. They're very religious. Very family-oriented. They're not political. I see very little chance of embarrassment for us here."

If Enrico were this week to read his words, contained in his 1986 account of the war with rival Coca-Cola, he would surely blush. Over the past few days Pepsi has pulled its multi-million dollar sponsorship of the star's "Dangerous" concert as Jackson has abandoned his world tour because of addiction to pain-killers and stress caused by allegations, strongly denied, that he sexually molested a 14-year-old boy.

It is not the first time a celebrity has turned into a marketing nightmare: Pepsi has already abandoned commercials in the US featuring pop star Madonna after a furor over a video; the actor Burt Reynolds' divorce petition became an embarrassment to advertisers; and sportswear endorsements halted abruptly for "Magic" Johnson, the basketball player, when he announced he was HIV positive.

But far from becoming fed up with the extraordinary fees that stars demand for their endorsement of products - and the danger that if a celebrity goes off the rails the brand may go with them - the trend, if anything, is towards the increased use of big names.

Kenneth Miles, director general of the Incorporated Society of British Advertisers, sees the use of celebrities as an extra weapon on a battlefield where differences between brands are not always apparent. The value of using stars has been proven, he claims, particularly when it comes to getting through to young people. Instead of personalities being employed solely in advertisements, they are increasingly being integrated into all aspects of a marketing campaign.

Chris Powell, president of the Institute of Practitioners in Advertising and chief executive of agency BMP DDB Needham, says using a celebrity can have the benefit of giving instant fame to a product but "the ever-present danger is that it can blow up on you."

As Mike Walsh, Ogilvy and Mather's London chairman puts it, one of advertisers' greatest fears is that "the celebrity becomes the hero, rather than the product they're marketing". An example, repeatedly mentioned in the industry, is the series of advertisements for Cin-

Celebrities can bring instant fame to a brand, but they can also fall from grace. Diane Summers reports

## Dangerous liaisons



Michael Jackson, the dream celebrity has become a marketing nightmare

zamo, featuring actors Joan Collins and Leonard Rossiter. Some people believe the characters so dwarfed the product that consumers may have had trouble recalling the brand.

If the identification of a star with a product is very strong it can also make brand development difficult, says Tom Brannan, a vice-chairman of the Chartered Institute of Marketing and a director of agency Primary Contact. The wedding process may seem straightforward: for example, when Sony needed to move away from using John Cleese in its

cricketeer Ian Botham calling Dansk low-alcohol lager "that's piss".

Clean, but not so squeaky clean to be boring, seems to be the maxim for selecting a celebrity. That most desired attribute of all when marketing to the young - street credibility - was gained by the former sick-bed drink Lucozade when it started using the Olympic athlete Daley Thompson to promote the brand. Thompson's irreverent streak definitely helped, says Walsh, whose agency created the ads.

However, sporting personalities bring their own problems. Says Miles: "They do have a high wear-out rate," although, carefully chosen, their promotional value can outlast their ability to win medals. Michael Jordan, the basketball player, earned about \$32m (£23m) last year, according to Forbes magazine, from promoting a range of products including Nike shoes. He will continue his activities in retirement, even if the ads are modified to take account of his less-active status.

One tip from Dominic Mills, editor of the UK advertising weekly Campaign, is to spot a celebrity early: "If you get them before they're really famous you can ride on their back." It is also possible, presumably, to benefit from less-inflated fees. Actor Paul Hogan's link-up with Foster's is a good example, says Mills. Hogan only moved from cult to mass-market status with *Crocodile Dundee*, which came after the first Foster's ads.

In selecting a celebrity, says Brannan, it is also very important for companies to analyse which values they are trying to build into their brand. For example, Sir Robert Mark, the former UK Metropolitan Police commissioner, is a good choice to promote the trustworthiness of Goodyear tyres. Beware, says Powell, loose connections between celebrities and brands - "borrowed interest", as he calls it.

That close fit is exactly what Pepsi had for a number of years with Jackson. Jay Coleman, an arranger of deals between rock stars and corporations, brought the idea of Jackson to Pepsi. As reported in Enrico's book, Coleman says as part of his sales pitch: "Cars, liquor - for a dreamy, clean-living kid like Michael, these make no sense. He needs a product that's soft, cuddly, harmless and fun. And that's soda."

And that, even if every letter of advice from the experts is followed, is celebrities - potentially high rewards, with the inevitable high risks to match.

The solution to the puzzle which appeared on this page on November 4 is that each of the four words contained the name of an animal.

## A little luxury goes a longer way

A demand for durable products has replaced the throwaway ethos of the 1980s, writes Alice Rawsthorn

The Sultan of Brunei recently spent an agreeable afternoon shopping at Tiffany and treated himself to a \$70,000 (£50,000) trinket.

The sultan must have been a welcome sight at the Manhattan store which, in common with the rest of the luxury trade, has had a tough time recently. The industry is still under pressure as illustrated by the recent takeovers of Gucci, the Italian leather company, and Yves Saint-Laurent, the French fashion house. But the situation is improving as the global economy edges towards recovery. The surviving companies must adapt their marketing strategies to meet the new demands of the luxury market after the recession.

During the 1980s, the dominant theme in the luxury business was expansion, as new customers entered the traditional markets of Europe and North America and Japan emerged as a dynamic new market for expensive western goods. Whereas the industry's old customers had preferred to pay more for products which were distinctive - either because they were made in limited editions or designed to particular specifications - all that the nouveau consumers wanted were instantly recognisable status symbols.

The most successful luxury products were the obvious ones: Chanel suits with tail-tale double Cs on the gilded buttons and Louis Vuitton luggage emblazoned with LV initials.

The recession has weeded out some of the nouveau consumers and reshaped consumer taste after the ostentation of the 1980s. "People show off less than they used to," says Françoise Jollant-Kneebone, design director of Louis Vuitton, the French luggage house. "They're still prepared to spend a lot of money on an expensive product, but only if they're certain that it is of really high quality and that it will last."

The most successful companies of the early 1980s are those that have recognised these changes. Hermès of France has prospered

by sticking to its specialist niche at the top of the market with its 135 scarves and 1,970 hand-made bags: as has Asprey, the British concern, that has turned its Bond Street store into the gift shop for the world's super-rich.

"This business is all about scale," says Peter Wallis, director of SRU, the London-based management consultancy. "It's perfectly possible for people to operate successfully in luxury goods today, but they have to accept that there are limitations to the size of the market."

Hermès and Asprey have acknowledged the constraints. "It's perfectly possible for people to operate successfully in luxury goods today, but they have to accept there are limitations to the size of the market"

Hermès plans to continue to expand the international network of shops that fuelled its growth in the 1980s: but Jean-Louis Dumas, chairman, has said the pace of openings will be slower in the 1990s.

Naim Attallah, group chief executive of Asprey, is adamant that he will not expand the original Asprey company. "It's a very special business," he says. "If we opened Aspreys all over the world, we'd risk ruining it." The luxury companies have had to adapt their product ranges to meet the new demands of the 1990s. The backlash against the "throwaway" ethos of the 1980s means people are buying fewer expensive items, but are prepared to pay more for them if they are convinced they will last.

Jollant-Kneebone says fewer of Louis Vuitton's customers "come back to buy a new bag every six months", but there has been a sharp increase in sales of customised luggage, which is often more expensive than

standard lines.

In design terms this has triggered a shift towards classic styles which will not date. The focus of fashion has swung from the glitz of Chanel to the subtler looks of designers such as Jil Sander in Hamburg and Prada in Milan, which have both expanded despite the recession.

The change in taste is already reflected in luxury advertising. The glossy advertisements in *Vogue* and *Vanity Fair* now tend to dwell on exclusivity, craftsmanship and the long history of their companies, rather than the materialistic imagery of the 1980s.

Service is an increasingly important component of luxury marketing as consumers demand more reassurance about the quality and durability of the products they are buying. "Our customers are more discerning," says Attallah. "We must make sure our staff are properly informed about everything in our range."

Repairs and renovation are also expanding. Customers of Cutler & Gross, the London optician, can calm their ecological consciences by paying £25 to have their sunglasses reconditioned, rather than spending £70 on a new pair.

The financial strains on the luxury business are now easing as the US and UK come out of recession and the growth of the emerging Asian economies - South Korea, Taiwan and, most recently, China - compensates for the weakness of Japan. But no one expects the industry to return to the heady growth of the 1980s and the themes of exclusivity, high quality and sophisticated services are likely to dominate luxury marketing into the 1990s.

"A lot of people in the 1980s thought that this business was all about marketing in the conventional fast-moving consumer-goods sense," says Wallis of SRU. "It might have been at the time but it certainly isn't now. It's about developing a brand with a clearly-defined market position."

## PEOPLE

## End of an era for insolvency name

Roger Cork is severing the last remaining family links between the famous insolvency firm Cork Gully and Coopers & Lybrand, with which it merged in 1990.

Cork, below, who is the son of insolvency doyen Sir Kenneth Cork and grandson of W H Cork, founder of Cork Gully, is leaving his position as a senior partner with Coopers to join Moore Stephens.



In a statement recently circulated to Coopers' partners, his departure is explained as the result of "differences of opinion" with the firm over the future of Cork Gully. Coopers has been gradually

playing down the status of Cork Gully. In the last few months it has been dropping the firm's name from many of its activities.

Cork Gully is now used primarily in liquidations. In other insolvency work, Coopers believes the name has a destructive connotation, when much of its work is connected to companies which can be salvaged.

Cork, who has worked at Cork Gully for 24 years, will join Moore Stephens in January to lead its small corporate recovery practice. He trained with the firm in 1965-69. His grandfather and the founder of Moore Stephens were friends and simultaneously founded their respective firms.

"Although Moore Stephens is an international firm of some standing, it has a very small insolvency division," he said. "I am very sad to be going but I was at loggerheads with the management."

Four generations of the Cork family have been involved in insolvency work. One of Roger Cork's cousins is a partner with Booth White, whose son has in turn just qualified as an insolvency practitioner.

Moore Stephens is the UK's 14th largest firm with total fee income of £42m. Coopers is the largest firm in the country, with fee income last year of £533m and insolvency income alone of £73m.

## Willis Corroon bags Schreyer

Willis Corroon group, one of the world's foremost insurance brokers, has appointed William Schreyer to its board as a non-executive director, with immediate effect, and simultaneously see the retirement of another non-executive, Arthur Vorys, who has been on the board since 1990.

Schreyer, right, 65, retired earlier this year as chairman and chief executive of Merrill Lynch, where he had been since 1988. His first post with Merrill was as a management trainee, but over the decades he held many posts with the company, reaching the peaks of first president and chief executive in 1984 and then chairman in 1985.

Besides his new non-executive role with Willis Corroon, Schreyer is a director of Schering-Plough and is vice chairman of the New York Stock Exchange. Moreover, he acts as a special financial adviser to the Vatican in Rome, a Papal appointment.

He takes an active interest in international relations, being affiliated to the Centre for Strategic and International Studies and the Council on Foreign Relations, as well as academic life, through his position on the board of trustees of Pennsylvania State University.

Other non-executive appointments: James Browning, a general

manager of the Bank of Scotland, at BANK OF WALES; Archibald Gibson has retired.

David Baarda, owner of John Baarda which grows tomatoes and cucumbers, at SALADS ETCETERA HOLDINGS.

Adam Lee, chairman of Unison and a former head of RBS's private banks, at MINNET.

John Kemp-Welch, joint senior partner of Casanova &



Co, at MARTIN CURRIE and as chairman of LOWLAND INVESTMENT COMPANY on the resignation of Raymond Cazalet who has also resigned from LAW DEBENTURE CORPORATION.

## Work for economist

Despite his periods at Essex University and the London School of Economics in the late 1960's, James Robertson's career has taken a most unconventional path as a civil service economist.

This is just as well because on Monday he will take over as the new chief economist at the Employment Department. Robertson replaces Pam Meadows, who has left to become director of the Policy Studies Institute.

Robertson, 44, joined the civil service as an Employment Department economist in 1975. He has since worked in the Department of Energy; headed the Regional Economics Branch in the DTI; and after a brief spell in the Department of

Transport he rejoined the DTI as head of Industrial and Regional Economics and Statistics.

His promotion to under secretary, with a staff of 100, will not come as a surprise to people who have worked with him. "He has always seemed a young man in a hurry," says a colleague.

And there may be some political logic to his move, in the light of continuing discussion of a merger between the DTI and the Employment Department.

"I welcome the opportunity to draw closer links between the two departments. You can't look at labour markets in isolation from product markets," says Robertson.

## Bett heads quango

When Michael Bett announced earlier in the year that he would fulfil his role as deputy chairman of BT in a non-executive capacity, he said that he wished to spend more time on community and social interests.

His new appointment as chairman of the government's Social Security Advisory Committee from January 1 will fill around one day a week in his diary.

The committee advises the secretary of state on social security matters other than industrial injuries, war pensions and occupational pensions.

Most social security regulations must be submitted to the committee before they are

made. Bett, who is also chairman of Colnet, was previously managing director of BT and personnel director of the BBC.

In January, Bett, 58, was plucked at the post for the chairmanship of Acas, the government conciliation service.

He will be well-placed to pick up signals from social security claimants when things go wrong with benefits: since 1985 he has been Chairman of Bromley Citizen's Advice Bureau.

He recently became chairman of Save the Children Fund and president of the Institute of Personnel Management.

Bett replaces Sir Peter Barclay who is retiring after nine years as chairman.

## THE NEW 900. VERY SPACIOUS. VERY SMART. VERY SAAB.

The new 900 is a very special car, the product of a very special kind of relationship: Saab engineers and designers striving together to produce a car in which every point of form follows a purpose of function.

Seated at the wheel of the new 900, you immediately sense that this is no mass-produced car. The generous headroom; the supportive contours of the orthopaedically-correct seats; the logical positioning of each control and instrument; the manner in which you are able to concentrate on your driving with minimal distraction. No detail has been

overlooked. Everything has been considered. A product of meticulous Swedish engineering, it combines comfort and reliability with performance and safety to offer you a long-lasting car of timeless quality. And that's very Saab indeed.

THE NEW SAAB 900. VERY SAAB.



Specifications and standard equipment may vary by market. Consult your nearest Saab retailer.



Engine choices: 2.0 V6 (170 bhp), 2.0 Turbo (185 bhp), 2.3i (150 bhp), 2.0i (130 bhp). For further information, test drive or the International/Diplomat Sales Program call Saab Information Service +44-71-240-3033 or fax a copy of your business card to +44-71-240-6033.



## TECHNOLOGY

Virtual reality is taking off in the games field, but its impact on industry has so far been limited. That is now set to change

# Artificial look into the real world

To most people, virtual reality means video games and entertainment arcades. The idea of using the technique - in which three-dimensional surroundings are created by computers for viewing on headsets or desk-top terminals - has hardly penetrated beyond the leisure industry.

But manufacturers are turning increasingly to this artificial, 3-D world for help with the design and development of new products. The virtual reality research programmes run by universities and other research centres have attracted a number of companies, including Caterpillar, the US manufacturer of earthmoving equipment, and two UK groups, Rolls-Royce and VSEL (formerly Vickers Shipbuilding and Engineering).

The potential of VR for helping business and cutting costs was demonstrated in the Netherlands earlier this year when the Calibre Institute at the University of Eindhoven developed a system for construction companies. It enabled prospective house buyers to "walk through" new homes at a greenfield site before they had even been built. An increase in sales was reported while VR was in use there.

Caterpillar has based its research work at the National Centre for Supercomputing Applications at the University of Illinois. Much of the work is experimental, but the company is using stereo glasses and full-immersion headsets to develop operator cabs for backhoe loaders and wheeled shovels.

"We use the system as a design tool to check operator visibility and evaluate performance of design," explains Richard Ingram, Caterpillar's manager of university relations. He is guarded about the financial savings that Caterpillar expects, but compares VR's possible



Lost in an artificial world: immersion in virtual reality stimulates the brain with new images but there is concern that it may also distort perception in the real world.

Impact with the way spreadsheets and personal computers revolutionised the accountancy profession.

"It can take from six months to a year to design and build a prototype vehicle. With virtual reality, we can put a new design into the lab in a week," he says. Caterpillar invites digger operators to the centre's laboratory where they sit in a conventional cab seat wearing a headset.

Immersed in a virtual world, they can glance outside the virtual cab and watch the machine's bucket rise and fall as they control it with real levers. Functions, however, are

kept simple, dictated by the speed at which computers can display the movements in real time. If the operator dislikes one cab, an alternative design can be called up.

In the UK, a close-knit community of universities and small research companies is now starting to attract support from industry. "Virtual reality is not yet a finished production tool. And even though basic systems cost around £40,000, companies will initially prefer to work with centres of excellence," says Seamus Morley, sales manager of Division Group, a leading UK-

based supplier of VR systems for industrial applications.

Division has sold more than 50 fully immersive systems worldwide and a few weeks ago shipped what it describes as the world's largest commercial VR system to Matsushita Electric in Japan. Valued at some \$900,000 (£331,000), the system will enable three people to share the same virtual world.

Coventry School of Art and Design, part of Coventry University, purchased a VR system in March. It is now collaborating with companies such as Ford, Rover and Motor

Panels, the truck cab specialist.

"We're using virtual reality for design evaluation and interaction," explains David Pryce-Kvans, project researcher. The aim is to enable vehicle designers to see and interact with a full-sized car without going to the expense of building one.

The next step is to expand the breadth of interaction, says Pryce-Kvans, and move into consumer products such as kettles and cameras. Rolls-Royce and VSEL are among a number of companies which have joined a research programme run by Advanced Robotics

Research, a company based at Salford University.

Rolls-Royce, which joined the programme in July, wants to convert computer-aided design models of its Trent high-thrust aero-engine into real-time VR images. "The aim is to put engineers next to a virtual rather than real model of the engine," explains Robert Stone, technical manager of Advanced Robotics.

Rolls-Royce says it has been interested in VR for a year and believes there will be a "clear financial payoff" if the system proves to be a practical tool. VSEL has been using advanced three-dimensional CAD modelling with full-sized and one-fifth scale models of submarines for eight years. Now, it wants to eliminate the real models and allow engineers to "enter" virtual submarines for design verification.

Despite an impressive membership list which also includes ICI and British Nuclear Fuels, Stone says he is concerned at the "apathy" shown by much of industry. "The UK is leading the way in VR research, but people still see it as a computer game, there's too much hype from the leisure industry," he says.

He admits that introducing VR to manufacturing industries will not be easy. The technology is still relatively expensive and the clarity of images comparatively poor.

A new convert to virtual reality is the supermarket sector. Britain's Co-operative Wholesale Society recently joined the programme run by Advanced Robotics. Its corporate technology department is keen to have a virtual supermarket so it can study customer flows and space planning. Presumably, though, it will stop short of virtual customers and virtual profits.

David Traherne

## Advice on some burning issues

When Mike Lyons speaks about the buildings he sets on fire, you could be excused for thinking that he is a pyromaniac. Fortunately, the buildings and the fire's victims only exist on a computer's virtual reality program.

Lyons is general manager of Colt Virtual Reality, set up by the UK ventilation and environmental control group to provide advice for architects and builders. Colt uses VR to study the movement of people in and around buildings, ships and tunnels.

Lyons says there is a tendency to make simple assumptions about people's behaviour.

"Suppose you have a store with 100 people in it, and exits at the front and back. If there's a fire, it is traditionally assumed that 50 will go out through the front and 50 through the back."

A better understanding can be obtained by using a VR database to create individuals based on the psychology and behaviour of real human beings. These are then in the building when the blaze starts.

Allowance is made for the elderly moving more slowly, parents stopping to collect their children and individuals whose curiosity or bravery sends them against the flow to find the source of the blaze.

With random elements included, the sequence is run up to 100 times and the evacuation time established. When changes are made to the building design, the process can be repeated.

Such studies can show surprising results. In one minute, about 120 people can push through a doorway of the standard 74cm width. But if that is increased by 20cm, almost twice as many can leave in the same time.

London's planned £23m Crossrail project will be designed with the help of Colt VR, which has been brought in by British Rail and London Underground to help with station design for normal use and emergency evacuation.

Jonathan Constant

Graham Clayton

## Russians show their mathematical might

Virtual reality can be bad for you. It can disorientate the brain and make it hard to readjust to the real world.

This is the view of Bill O'Riordan, a professor at Imperial College, London, and head of advanced research at ICL, the UK computer group owned by Fujitsu of Japan. He believes the creators of virtual reality have made a fundamental error by failing to base their world on the laws of physics.

Yet he is confident a solution can be found - in Russia, where software experts bring a mathematical scrutiny to bear on computing problems that contrasts with the west's more pragmatic

approach.

Central to O'Riordan's concern about VR's dangers is the belief that inaccurate representations of the real thing can return people's minds to a false set of rules. Those who spend too long immersed in a computer environment - especially with a headset - can emerge confused. They may not realise it, but their brain may have been reprogrammed. What happens when they are behind a car wheel? How do they know their reaction times have not been subtly altered?

O'Riordan's conclusion is that the laws of physics and mathematics are being simplified, even ignored. He has several criticisms: if VR objects move at all, they follow pre-determined paths; their interaction with other objects is often not taken into account; scaling is inaccurate; and the use of shading often bears little relationship to the light source.

"The west is making a big mistake in failing to base much of its technology on sound mathematical principles. VR is perhaps the most serious example."

To help put this right, he has organised talks between ICL and top scientists from the former Soviet bloc.

Because it was isolated by the iron curtain, Soviet computing followed a different path of

evolution - one firmly rooted in mathematics - from that of the west. The result was highly developed skills in programming and algorithms, the building blocks of computer language.

Western computer companies, by contrast, were able to throw money and sophisticated hardware at problems, and became "seduced by graphics" as they strove to make more user-friendly products.

"The computer games boom is partly to blame," says O'Riordan. "We have been bombarded by 'virtual worlds' created on the PC, although the complexity of recreating reality is such that no PC can yet handle it."

He finds proof of Russian expertise in the country's military and space technology. He is not alone in his views. David Hughes, a professor at the University of Plymouth who chairs the British Computer Society special interest group on computer-aided design, has also worked with institutes in Russia and Ukraine.

"Their work is mathematically based, and despite very low levels of technology, their programming skills are formidable. They have been able to get far more out of low-power systems than we would have believed possible."

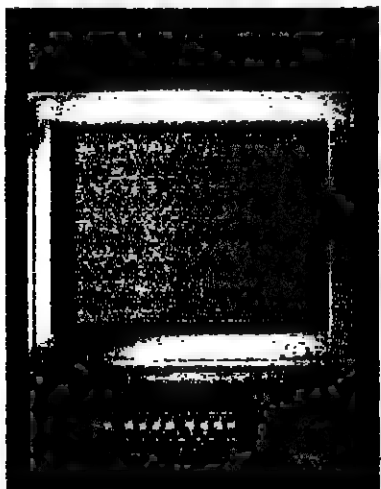
The Russian mentality may be a result of 60 years of political

repression, says Daron Swade, senior computer curator at the Science Museum in London, because anything which had a practical application was centrally controlled. "The only way they could escape the controls was to enhance the abstract."

The Science Museum put ICL in contact with the Institute of Informatics Systems in Siberia, which led to the first talks last month. O'Riordan was enthusiastic. "The Russians know how to make a machine sing - their programming doesn't waste a bit or a byte," he says.

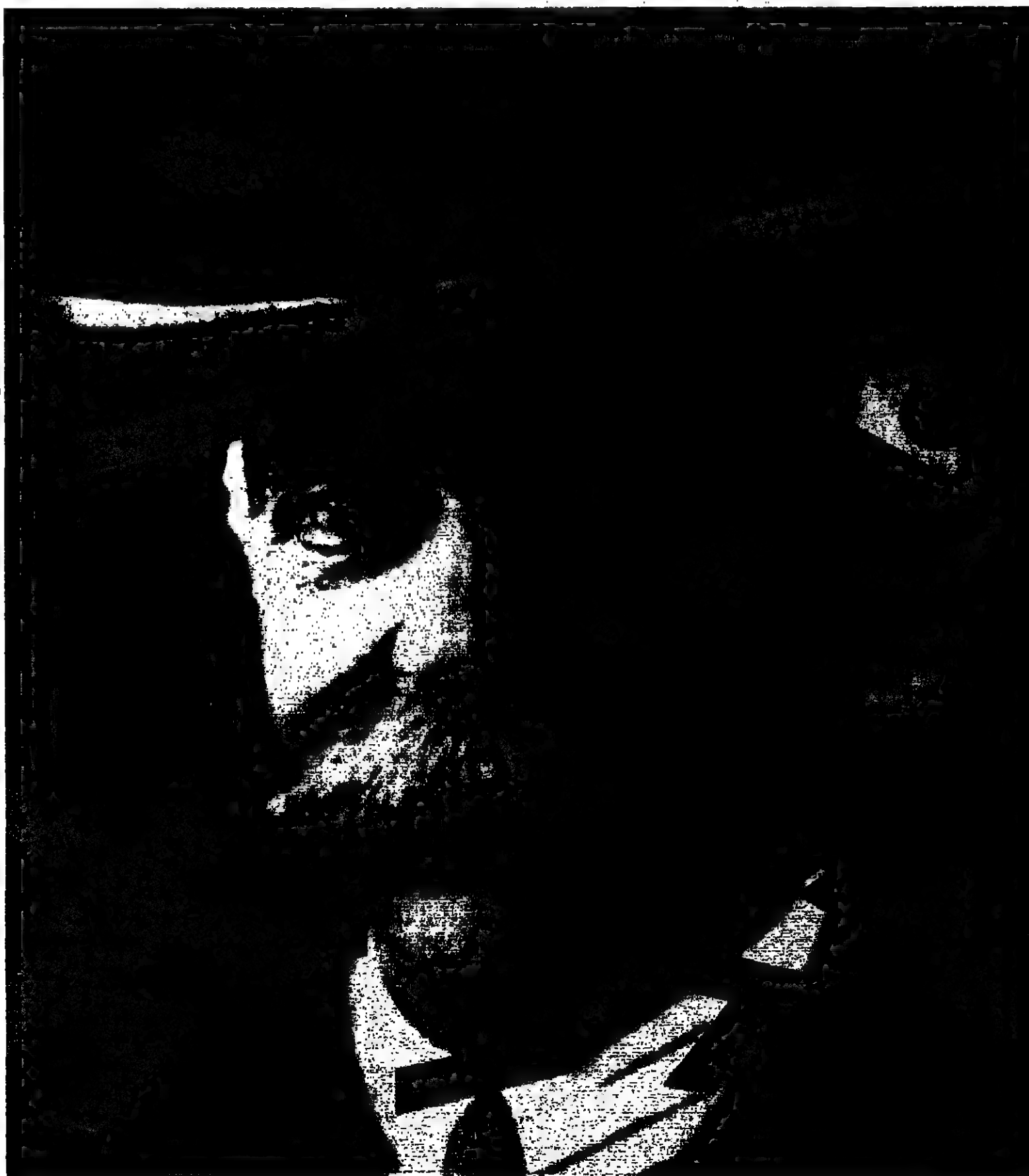
SIEMENS  
NIXDORF

Dear Pierre de Coubertin,  
forgive us for changing your Olympic motto into our service philosophy:  
"Closer, faster, stronger"



The European spirit  
Synergy at work

"Being there is everything" doesn't work in computer servicing. So our goal is "closer, faster, stronger" - regardless of whether the computer systems are from Siemens Nixdorf or any other manufacturer. "Closer" to our customers, through the perfect teamwork of local support technicians and top specialists at our support centers. "Faster" response, by means of the most up-to-date technology such as our Teleservice and new computerized spare parts management. And "stronger" in performance, since new, intelligent servicing capabilities reduce the risk of failure to a minimum right from the start. After our rigorous training, we're looking forward to challenging the best in the market.



1550



Concert  
Fine  
tuning

A pretty label for a very good concert of micro-tonal music - i.e. music that employs some non-standard intervals between notes, smaller or larger than our "equal-tuning" system accommodates - which was what James Wood gave us in the Queen Elizabeth Hall on Monday, with his New London Chamber Choir and an ensemble from his Centre of Micro-tonal Music. (They are touring this concert, for the Arts Council's Contemporary Music Network see below.)

Micro-tones include, for example, "blue notes" in jazz, but also certain notes in various folk-music scales (or modes, or Indian ragas) that are too sharp or flat to be represented on a modern piano. In the "Fine Tuning" programme, every piece either had pre-tuned instruments or used micro-tonal slides for colouristic effects.

Kevin Volans' 1982 suite *White Man Sleeps* plays the ethnic card, with its two harpichords, a sort of cello with frets, pre-tuned to African modes. For some time, that seems to be the only pungent thing about its gentle dances; but a gambus solo with soft drums develops more inwardly, and later the composer begins to invent rhythmic patterns and counterpoint beyond anything in the original material. "Unacceptably Germanic," he now thinks (he wrote the suite while studying with Stockhausen in Cologne), but without those twists it might be little more than a curio.

Wood's ten female voices, by the eccentric recluses Giacinto Scelsi (1905-88), explore the disconcerting effects of micro-tonal slides within sustained, almost motionless harmony. It freezes one's attention for its six minutes. For a dozen mixed voices, the 1988 *Nuits de l'Amis Xenakis* is a dramatically varied cry of painful sympathy for political prisoners; as often with Xenakis, the raw-punch that it packs over overwhelms any doubt about whether it is music, exactly.

Jonathan Harvey's recent *Valley of Aosta* (after an apocryphal Turner canvas) conjures up wild rural vistas, using its micro-tones - pre-tuned on harps and synthesizers - to misdirect any ear hoping to find a clear harmonic path through the music. We surrender to the radiant, marvellous colours. Through them, the two synthesizers cast sharp-focus streams of bright, even notes - but they are tuned a quarter-note apart.

Wood's own *Phenomena*, premiered a year and a half ago but much revised last summer, earns its right to serve as climax for the programme. Though he is a prolific composer as well as conductor and percussion virtuoso, Wood's earlier pieces have been distinguished chiefly by ingenuity and eclectic resource. The extreme, pungent contrasts in *Phenomena* are theatrical as could be - but dramatic music, not music-theatre. It sounds like a composer discovering his own cogent means to a strong, original purpose, rich and strange.

David Murray

Further performances Oxford 19th, Leicester 20th and Huddersfield 21st

## Cinema/Nigel Andrews

## Catch the magic carpet

The Disney company may be in trouble in Europe, where the once-roaring mouse now squeaks in terror at its quarterly bank statements. But in America, corporation and rodent have ridden high throughout 1993, mostly on the back of a single film *Aladdin*. Disney's new animated feature has outperformed last year's *Beauty and the Beast* to become the highest-grossing cartoon feature of all time.

Why? How? What is happening? Ten years ago painstaking animation was pronounced dead or dying by many observers, including I regret to say, me. The art had been hounded to an early grave - we all said - by such new pretenders as modelwork, animatronics and computer graphics. Now look at the bushes on our faces. *Aladdin* has been the year's second favourite film after *That Dinosaur Movie* and a mere five minutes in your seat will tell you why. Having seduced us with romantic traditionalism in *Beauty and the Beast*, Disney now turns 180 degrees and goes for comedy mixed with high kitsch. The décor in *Aladdin* is out of *Elizabethtown* via *The Thief of Baghdad*. The characters are spunky and (post)modern: led by a Tom Cruise-like Aladdin and a Robin Williams-voiced genie with a genius for mimicry. And the pace is so fast, so sure, that British Rail should take a look at Disney's Advanced Passenger Carpet as a serious potential design model for 2002.

The story, we know, is simple enough to suit the breakneck pace. Boy meets lamp; boy rubs lamp; boy, after minor setbacks, is helped by the dead; here some Robert De Niro, there some Bette Midler, there again some Jack Nicholson. And the vocal gymnastics are matched by visual. The Disney artists swish their scene-stealer through all the lighting likenesses his voice invokes, calling on the latest computer technology to do so.

At times the movie's modernist attack can feel like assault and battery. The princess, in keeping with feminist writ, is less a shrinking violet than a ball-breaking career girl: I have met her kind behind many a Hollywood executive desk. And as for Jafar's parrot Iago - need it be quite so deafeningly vaudevilian in its locations? "Oh that's a big surprise! I think I'm gonna die of surprise!" etc.

But why are we complaining of too much energy from a studio that not long ago, after Walt's death, seemed to be slipping into irreversibility? *Aladdin and Beauty and the Beast* prove there is undreamt-of life both in Disney and in the art of feature animation. And we have not even mentioned the songs. Music by Alan Mencken; lyrics by Howard Ashman and Tim Rice; and my favourite was not the Oscar-winning "A Whole New World" but the preposterous, elephant-awakening, over-the-top, out-intolerant, intolerance "Prince Ali." Take the children, buy a sack of popcorn, enjoy.

Half a Mel Gibson is better than no Mel Gibson. But *The Man Without a Face*, directed by Mr G, shows how stars do like to put their own charisma through the mincer whenever they get behind the camera. "Pizza face!" "Hamburger head!" - these are among the friendly sobriquets lobbed by local children at the reclusive ex-schoolteacher with the burr-ravaged features (Gibson) who lives in a sea-washed mansion in Maine. Turn our hero

need do is follow the narrative arrows. We begin with melodrama, mugged with a marvelous opening conceit: the "cave" is the mouth of a giant sand monster and Aladdin is chased from its innards by a roaring, bilious spume of lava. Further metamorphic fun is sketched in by the villain Jafar and his staff that becomes a

ALADDIN (U)  
John Musker, Ron Clements

THE MAN WITHOUT A FACE (12)  
Mel Gibson

THE STRANGER (U)  
Satyajit Ray

SO I MARRIED AN AXE MURDERER (12)  
Thomas Schlamme

POSSE (15)  
Mario Van Peebles

THE STOLEN CHILDREN (15)  
Gianni Amelio

cobra. Then Robin Williams' genie arrives, seizing the spotlight, the microphone and the movie's transformation franchise. Williams' performance is less a star turn, more a one-man galaxy expounding its chaos theory of comedy. When one inspired routine burns out, another flames up to take its place; all in nanoseconds rather than light years. The demented thinking of an air stewardess' voice; Peter Lorre's feline murrain for a line of necromantic poetry ("I can't bring people back from the dead"); here some Robert De Niro, there some Bette Midler, there again some Jack Nicholson. And the vocal gymnastics are matched by visual. The Disney artists swish their scene-stealer through all the lighting likenesses his voice invokes, calling on the latest computer technology to do so.

At times the movie's modernist attack can feel like assault and battery. The princess, in keeping with feminist writ, is less a shrinking violet than a ball-breaking career girl: I have met her kind behind many a Hollywood executive desk. And as for Jafar's parrot Iago - need it be quite so deafeningly vaudevilian in its locations? "Oh that's a big surprise! I think I'm gonna die of surprise!" etc.

But why are we complaining of too much energy from a studio that not long ago, after Walt's death, seemed to be slipping into irreversibility? *Aladdin and Beauty and the Beast* prove there is undreamt-of life both in Disney and in the art of feature animation. And we have not even mentioned the songs. Music by Alan Mencken; lyrics by Howard Ashman and Tim Rice; and my favourite was not the Oscar-winning "A Whole New World" but the preposterous, elephant-awakening, over-the-top, out-intolerant, intolerance "Prince Ali." Take the children, buy a sack of popcorn, enjoy.

Half a Mel Gibson is better than no Mel Gibson. But *The Man Without a Face*, directed by Mr G, shows how stars do like to put their own charisma through the mincer whenever they get behind the camera. "Pizza face!" "Hamburger head!" - these are among the friendly sobriquets lobbed by local children at the reclusive ex-schoolteacher with the burr-ravaged features (Gibson) who lives in a sea-washed mansion in Maine. Turn our hero

need do is follow the narrative arrows. We begin with melodrama, mugged with a marvelous opening conceit: the "cave" is the mouth of a giant sand monster and Aladdin is chased from its innards by a roaring, bilious spume of lava. Further metamorphic fun is sketched in by the villain Jafar and his staff that becomes a

need do is follow the narrative arrows. We begin with melodrama, mugged with a marvelous opening conceit: the "cave" is the mouth of a giant sand monster and Aladdin is chased from its innards by a roaring, bilious spume of lava. Further metamorphic fun is sketched in by the villain Jafar and his staff that becomes a

ALADDIN (U)  
John Musker, Ron Clements

THE MAN WITHOUT A FACE (12)  
Mel Gibson

THE STRANGER (U)  
Satyajit Ray

SO I MARRIED AN AXE MURDERER (12)  
Thomas Schlamme

POSSE (15)  
Mario Van Peebles

THE STOLEN CHILDREN (15)  
Gianni Amelio

cobra. Then Robin Williams' genie arrives, seizing the spotlight, the microphone and the movie's transformation franchise. Williams' performance is less a star turn, more a one-man galaxy expounding its chaos theory of comedy. When one inspired routine burns out, another flames up to take its place; all in nanoseconds rather than light years. The demented thinking of an air stewardess' voice; Peter Lorre's feline murrain for a line of necromantic poetry ("I can't bring people back from the dead"); here some Robert De Niro, there some Bette Midler, there again some Jack Nicholson. And the vocal gymnastics are matched by visual. The Disney artists swish their scene-stealer through all the lighting likenesses his voice invokes, calling on the latest computer technology to do so.

At times the movie's modernist attack can feel like assault and battery. The princess, in keeping with feminist writ, is less a shrinking violet than a ball-breaking career girl: I have met her kind behind many a Hollywood executive desk. And as for Jafar's parrot Iago - need it be quite so deafeningly vaudevilian in its locations? "Oh that's a big surprise! I think I'm gonna die of surprise!" etc.

But why are we complaining of too much energy from a studio that not long ago, after Walt's death, seemed to be slipping into irreversibility? *Aladdin and Beauty and the Beast* prove there is undreamt-of life both in Disney and in the art of feature animation. And we have not even mentioned the songs. Music by Alan Mencken; lyrics by Howard Ashman and Tim Rice; and my favourite was not the Oscar-winning "A Whole New World" but the preposterous, elephant-awakening, over-the-top, out-intolerant, intolerance "Prince Ali." Take the children, buy a sack of popcorn, enjoy.

Half a Mel Gibson is better than no Mel Gibson. But *The Man Without a Face*, directed by Mr G, shows how stars do like to put their own charisma through the mincer whenever they get behind the camera. "Pizza face!" "Hamburger head!" - these are among the friendly sobriquets lobbed by local children at the reclusive ex-schoolteacher with the burr-ravaged features (Gibson) who lives in a sea-washed mansion in Maine. Turn our hero

need do is follow the narrative arrows. We begin with melodrama, mugged with a marvelous opening conceit: the "cave" is the mouth of a giant sand monster and Aladdin is chased from its innards by a roaring, bilious spume of lava. Further metamorphic fun is sketched in by the villain Jafar and his staff that becomes a



'Aladdin', Disney's highest grossing cartoon yet: comedy mixed with high kitsch, all at breakneck speed

to the right and we get a perfect Mel profile. Turn him to the left and we get Elm Street squishiness. Ergo: It takes no small act of courage for fatherless young Chuck (Nick Stahl) to approach odd pizza-face and request some tuition for his military school entrance exam. He does not tell mother (Margaret Whitton); for, good heavens, what would she think? Especially since the man is suspected of having molested a boy years before, just prior to his scarring car crash.

Can you think of an odder choice for a movie star's direct debut? Then you have not followed the fashion in these things. Film idols, when they become film makers, love to deface or deprecate their own glamour. (See Eastwood giving us wrinkles-and-all in *Unforgiven*.) It shows that they are serious artists not just pin-ups. Gibson's film, though, never feels focused enough to offer either serious art or serious image-critique. Apart from some vague tut-tutting at small-town gossip and vaguer

that Lowdown Music Trickle Up my spine"; and she speaks the way she sings. No doubt the original Mae had more bite, danger, voluptuousness. But Baron combines fun, heavy-eyed glamour, grit, and sheer camp, all with enough finesse to make you believe, at least, in her Mae.

Patrick Sandford directs. Much of the first half's dialogue could be made up of knock-about comedy rather than grand verse. The appearance of Helen of Troy and Faustus's immortal lines in response stick in the memory more than the seven deadly sins or the antics of Faustus and the friars in the Vatican. Yet the production at Greenwich, where Philip Franks moves from an acting to a directing role for the first time, has a good shot at putting it all together.

Some details are perverse. The good and bad angels are a pretty scruffy pair of women, made peripheral to the story. Lucifer makes his first appearance in what look to be his underpants. The scene is set in a bed-it, admittedly a very large one, possibly close to the University of Newcastle.

One guesses the place because Jonathan Cullen's Faustus has a distinct Geordie accent - or has it become the fashion after Alan Cumming's Scottish Hamlet that heroes now come from the north? As a student he must be on a grant since, for such a learned man, he has very few books around. Presumably he borrows the key texts from the library. It takes time to adjust to this cultural shift. Mephistopheles helps to put it in place. Played by Hugh Ross, he is a very tall, suited figure in a long overcoat. He might be the vice-chancellor, or a senior, defeatist civil servant who has seen it all before; a very fine performance.

Greenwich Theatre until December 11. (081 858 7755)

ing. What you get is a subtler dance of bewilderment: a soft-shoe shuffle of the soul, a grand old image-choreographer laying out steps to prove that in this world Nobody Really Knows Anybody.

Can you even know that your newly-wedded bride is not a serial killer? Mike Myers, aka Wayne of Wayne's World, has this problem in *So I Married An Axe Murderer*. High-street butcher Nancy Travis seems so pretty, so nice... Yet her CV does seem to correspond with that of the multiple murderer headlined on the front page of the tabloid rag Myers glimpses in his scandal-hungry parents' kitchen.

This is Hitchcock's *Suspicion* with swapped sexes and often very funny, not least when it allows an irrelevant riff to get going. I loved Alan Arkin's cameo as a kindly police chief begged by his officers to be louder and more brutal. (They have seen too many TV cop shows.) As for Myers, his moon-faced sincerity and permanent state of attentive won-

der - the candour of the apprentice lunatic - suggests there is mileage in this actor's mock-innocence even after he has finished with *Wayne's Worlds* 1, 2, 3, 4, 5...

Oh that Myers had wandered debunking, a Candidate for ouage, into the cumbrous landscapes of *Posse* and *The Stolen Children*. The first is a black Western spurred towards pretension by director-star Mario Van Peebles (of *New Jack City*): much racial sermonising, much sculptural posturing in the mise-en-scene. Gianni Amelio's *The Stolen Children* is a sentimental, prize-laden Italian film about two siblings orphaned by the law. Carted off towards a care home from delinquent Momma - she had put the 11-year-old girl into prostitution - they pal up with their young escorting officer. Result: tender, truant wanderings across Italy as humanity begins to glow through the trio's sullen armour. The idea intrigues; the execution is a touch maudlin and more than a touch longwinded.

Greenwich Theatre until December 11. (081 858 7755)

Alastair Macaulay  
At the Nuffield Theatre, Southampton. 0703 671771

Master Owen, all frounce and flutter, chases the maids but runs out of ideas when the chase is up. Below stairs, an entire petty larceny of servants cheat their way through life. Behind *Grub Street* lies Fielding's satire of the dim George II, the pretentious Queen Caroline and their lecherous son Frederick Prince of Wales. Since the satire has not been altered to suit the present times, the strength and scandal of Fielding's original has been lost. But on this form, and theirs, the royal family should be grateful. Fielding stopped writing two and a half centuries ago.

Andrew St George  
Lilian Baylis Theatre, ECI (071 837 4104) until Nov 27; then on tour

Shostakovich and Beethoven, with cello soloist Lynn Harrell. Nov 22: Alfred Brendel. Nov 23: Sawallisch conducts Richard Strauss. Dec 4: Boston Symphony Orchestra (071-928 8800)

Barbican Tonight: Kent Nagano conducts LSO in works by Boulez, Mozart and Mahler, with piano soloist Barry Douglas (repeated next Thurs with violin soloist Sarah Chang). Sat: Andrea Constantinescu conducts ECO and Thomas Tallis Choir in works by Bach and Fauré. Sun: Nagano conducts British premiere of Messiaen's *Eclairs sur l'Au-delà*. Mon: Nikolaus Harnoncourt conducts Chamber Orchestra of Europe in Beethoven. Tues: Sviatoslav Richter plays Bach (071-638 8891)

MILAN  
Teatro alla Scala Sun: Nicolai Gedda song recital. Mon: Mirella Freni sings arias by Cilea, Puccini and Verdi, with orchestral accompaniment conducted by Maurizio Benini. Dec 7: opening of 1993-94 opera season with La Vestale (02-7200 3744)

MADRID  
Teatro Lirico La Zarzuela Tonight, tomorrow, Sat: Compagnie Angelin Preljocaj in choreographies by Preljocaj. Sun: Antoni Ros Marba conducts Madrid Symphony Orchestra in Bruckner's Eighth Symphony (01-429 8225) Auditorio Nacional de Musica Tonight: Spanish National Chorus in music by 16th century Spanish

## Theatre/Malcolm Rutherford

## Fun with Faustus

Because it is so seldom performed one forgets just how much of Christopher Marlowe's *Dr Faustus* is made up of knock-about comedy rather than grand verse. The appearance of Helen of Troy and Faustus's immortal lines in response stick in the memory more than the seven deadly sins or the antics of Faustus and the friars in the Vatican. Yet the production at Greenwich, where Philip Franks moves from an acting to a directing role for the first time, has a good shot at putting it all together.

Some details are perverse. The good and bad angels are a pretty scruffy pair of women, made peripheral to the story. Lucifer makes his first appearance in what look to be his underpants. The scene is set in a bed-it, admittedly a very large one, possibly close to the University of Newcastle.

One guesses the place because Jonathan Cullen's Faustus has a distinct Geordie accent - or has it become the fashion after Alan Cumming's Scottish Hamlet that heroes now come from the north? As a student he must be on a grant since, for such a learned man, he has very few books around. Presumably he borrows the key texts from the library. It takes time to adjust to this cultural shift. Mephistopheles helps to put it in place. Played by Hugh Ross, he is a very tall, suited figure in a long overcoat. He might be the vice-chancellor, or a senior, defeatist civil servant who has seen it all before; a very fine performance.

Greenwich Theatre until December 11. (081 858 7755)

PRAGUE  
Kazushi Ono conducts Czech Philharmonic Orchestra in works by Wagner, Beethoven and Shostakovich tonight and tomorrow in Dvorak Hall, piano soloist Grigori Sokolov (02-286 0111). Also Daniel Schweitzer conducts Czech Radio Symphony Orchestra next Tues in works by Kalach, Beethoven and Schubert, piano soloist Giovanni Bellucci (02-232 2501)

ROME  
Teatro Olimpico Tonight: I Virtuosi di Roma play works by Vivaldi, Boccherini and Albinoni, with contralto Francesca Franci. Next Tues: Momi Dance Theatre, choreography by Moses Pendleton, music by Peter Gabriel. Dec 2: John Eliot Gardiner conducts Monteverdi (06-320 1752)

VENICE  
Teatro La Fenice Sat: Garcia Navarro conducts first night of Pier Luigi Pizzi's new production of *Mosè in Egitto*, with a cast led by Ruggero Raimondi, Robert Swensen and Luciano Serra. Repeated Nov 23, 25, 28, 30, Dec 2 (041-521 0161)

Playing the complete text means that Faustus only comes into his own towards the end when he has a sudden rush of spectacular speeches disproportionate to the rest of the piece. It is only shortly before he has but one hour left to live that Cullen's Faustus emerges as a tragic hero. He delivers the wonderful final soliloquy with great passion and intelligence. One cannot help wondering, however, why he has to live in quite such drab surroundings.

There is some very striking accompanying music to the play composed by Jeremy Sams, yet again it has the effect of being slightly too elegant for the set.

Greenwich Theatre until December 11. (081 858 7755)

ARTS GUIDE  
Monday: Berlin, New York and Paris.  
Tuesday: Austria, Belgium, Netherlands, Switzerland, Chicago, Washington.  
Wednesday: France, Germany, Scandinavia.  
Thursday: Italy, Spain, Athens, London, Prague.  
Friday: Exhibitions Guide.

European Cable and Satellite Business TV  
(All times are Central European Time)

MONDAY TO THURSDAY  
Super Channel: European Business Today 0730, 2230  
Monday Super Channel: West of Moscow 1230.  
Super Channel: Financial Times Reports 0630  
Wednesday Super Channel: Financial Times Reports 2130  
Thursday Sky News: Financial Times Reports 2030; 0130  
Friday Super Channel: European Business Today 0730, 2230  
Sky News: Financial Times Reports 0530  
Saturday Super Channel: Financial Times Reports 0930  
Sky News: West of Moscow 1130; 2230  
Sunday Super Channel: West of Moscow 1630  
Super Channel: Financial Times Reports 1930  
Sky News: West of Moscow 0230; 0530  
Sky News: Financial Times Reports 1330; 2030

INTERNATIONAL  
ARTS  
GUIDE

## ATHENS

Megaron Tonight, tomorrow: Rudra Béjart Lausanne in choreographies by Maurice Béjart. Mon: Jacques Delacôte conducts Italian opera gala, with Rosalind Plowright, Dennis O'Neill and Ruggero Raimondi. Tues: Tatiana Nikolaeva plays Bach's Goldberg Variations. Wed: Alexandros Mysis conducts La Camerata in works by Elgar, Honegger, Mozart and Shostakovich. Nov 27, 28: Nikolaus Harnoncourt conducts Chamber Orchestra of Europe, with violin soloist Gidon Kremer. Dec 5, 6, 7: Czech Philharmonic Orchestra (01-728 2333/01-722 5511)

## BOLOGNA

Teatro Comunale Vladimir Spivakov conducts the Moscow Virtuosi on Mon in works by Elgar, Mozart, Schnittke and Shostakovich. The 1993-94 opera season opens on Nov 27 with Puccini's *Tristano e Isotta*. Ente Autonomo Teatro Comunale di Bologna, Largo

Respligh 1, 40128 Bologna. No telephone bookings accepted. For information, call 051-529999

## BARCELONA

Gran Teatre del Liceu Sat: Elena Obraztsova song recital. Dec 4: first night of Donizetti's *La fille du régiment* with Edita Gruberova (tel 412 3532 fax 412 1158) Palais de la Musica Tonight: Julliard Quartet plays string quartets by Haydn, Claus Adam and Schubert (268 1000)

## FLORENCE

Teatro Comunale Tomorrow, Sat: Carlo Maria Giulini conducts Tchaikovsky's Second Symphony and Musorgsky's Pictures from an Exhibition. Next week's concerts are conducted by Gianandrea Gavazzeni (055-277 9236)

## LONDON

THEATRE  
● Angels in America: Tony Kushner's two-part epic can be seen in its entirety for the first time on a British stage. The second half, *Perestroika*, joins *Millennium Approaches* this weekend in the Cottesloe, both directed by Declan Donnell (National 071-928 2252)  
● The Iron Man: the world premiere of a new rock opera by Pete Townshend, adapted from a story by Ted Hughes, directed by David Thacker. Previews begin on Saturday, press night November

25 (Young Vic 071-928 8363)

● Moonlight: Ian Holm and Anna Massey head the cast in Harold Pinter's first full-length play for 15 years. In a West End transfer of the Almeida production (Comedy 071-867 1045)

● She Stoops To Conquer: the Peter Hall Company presents a revival of Oliver Goldsmith's evergreen Restoration romp about mis-matched love and mistaken identities, starring David Sinden (Comedy 071-494 5041)  
● Relative Values: Tim Luscombe's admired Chichester Festival production of Noel Coward's comedy, with Susan Hampshire and Alison Fiske (Savoy 071-936 8888)

## OPERA/DANCE

Coliseum Mark Elder conducts the first night on Sat of Tim Albery's production of Lohengrin, designed by Hildegard Bechtler and Nicky Gillibrand, with a cast led by John Kayes, Linda McLeod, John Finn and Malcolm Donnelly. The production, ENO's first new Wagner staging for 10 years, runs till Dec 29 in repertory with *Le nozze di Figaro*, a Barberis di Siviglia and *Die Fledermaus* (071-936 3161) Covent Garden The Royal Ballet has MacMillan's *Romeo and Juliet*, a double-bill pairing Balanchine's *Ballet Imperial* and Ashton's *Tales of Beatrix Potter*, and a mixed bill including MacMillan's *Different Drummer* and Forsythe's *Herman Schlemmer*. The Royal Opera's repertory over the next two weeks is devoted to Martin Duncan's production of *Die Zauberflöte*, originally staged by Scottish Opera, with changing casts including

Amenda Roccoft, Sumi Jo and Wolfgang Holzmair. Tosca is revived on Dec 4 with Anna Tomowa-Sintow (071-240 1056)

## THE PURCELL EXPERIENCE

Roger Norrington leads a weekend of talks, discussions, rehearsals and performances at the Queen Elizabeth Hall, starting on Sat afternoon and ending with a semi-staged performance of *The Fairy Queen* on Sun evening. This is the second part of the Bank's exploration of Purcell, leading up to his tercentenary celebrations in 1995 (071-928 8800)

## CONCERTS

South Bank Centre Tonight: Bernard Haitink conducts LPO in works by Mozart and Shostakovich, with piano soloist Emanuel Ax. Tomorrow: John Lill plays Brahms' Second Piano Concerto. Sat: Libor Pesek conducts RPO in Nielsen, Shostakovich and Mahler, with violin soloist Arve Tellefsen. Sun afternoon: Sviatoslav Richter piano recital. Sun evening: Leonard Statkin conducts Saint Louis Symphony Orchestra in Vaughan Williams, William Bolcom and Richard Strauss, with flute soloist James Galway. Mon: Yan Pascal Tortelier conducts BBC Philharmonic in a Gorecki programme. Tues (RFH): Giuseppe Sinopoli conducts Philharmonia Orchestra in Schubert, Mozart, Rossini and Respighi, with mezzo soloist Cecilia Bartoli. Tues (OEI): Sian Edwards conducts Docklands Sinfonietta in Zimmermann, Berg, Penderecki and Weill, with violin soloist Tasmin Little. Next Wed: Wolfgang Sawallisch conducts LPO in Pfitzner,

that Lowdown Music Trickle Up my spine"; and she speaks the way she sings. No doubt the original Mae had more bite, danger, voluptuousness. But Baron combines fun, heavy-eyed glamour, grit, and sheer camp, all with enough finesse to make you believe, at least, in her Mae.

Shostakovich and Beethoven, with cello soloist Lynn Harrell. Nov 22: Alfred Brendel. Nov 23: Sawallisch conducts Richard Strauss. Dec 4: Boston Symphony Orchestra (071-928 8800)



# No upwardly mobile freeway to the future



At General Motors, the stumbling giant of the world car industry, it took an unprecedented two-stage coup last year to oust the old management in a last-ditch effort to drive the company out of the biggest losses recorded in US corporate history.

Volkswagen, the leader of the European car industry, is racked by losses. The high-cost producer of the world car industry, it is enduring a corporate and cultural revolution.

A large part of its senior management has been discarded in less than a year; its chief executive looks more isolated each day and is fighting a lonely battle, with his closest colleague under investigation by the German public prosecutor for alleged industrial espionage.

Toyota, the leader of the Japanese industry, is much less obviously in trouble, but its previous air of invincibility is being undermined. The stubbornness of the domestic Japanese recession, the surging yen and sales problems in foreign markets have combined to all but wipe out its operating profits. It too faces a leadership crisis, as the company struggles to move beyond the era of the Toyota family dynasty.

Must Toyota face a crisis as severe as those of GM and VW in order to change? The question is posed by Maryann Keller, a leading US financial analyst of the world auto industry, whose latest book *Collision* is a compelling account both of the storms buffeting the world's carmakers and of the executives struggling to stay at the helm.

"Toyota is clearly losing momentum and is bogged down by its responsibilities as Japan's number one corporate citizen. Whether the company slips into mediocrity or retains its leadership role depends upon Tetsuro Toyota (Toyota president since September 1992), a man not known for decisive action at a time when the company needs vision and leadership," argues Keller.

She has set out to chart the

**COLLISION**  
By Maryann Keller  
Doubleday/Currency \$25, 288pp

fluctuating fortunes of GM, Toyota and Volkswagen, the leaders of the auto industries of North America, Japan and West Europe, as they career along a collision course not so much with each other but with the unfamiliar challenges of the 21st century.

Misleadingly, Keller has chosen to coin the phrase the "global big three" to describe her target companies. The industry is dominated by at least a global big five. Ford, the number two US carmaker, is bigger than both Toyota and Volkswagen. Nissan, the number two Japanese carmaker, vies with Volkswagen in size.

Keller is not interested in the big picture, however. Her subjects were not chosen in deference to the industry's pecking order, but to use the companies as a way of exploring the national cultures in which they are embedded.

At such an elevated level the book falls short. In particular, as Keller travels away from North America, it often becomes little more than a travelogue and a beginner's guide to the cultural histories of Germany and Japan.

Within the more narrow focus of the world motor industry, however, *Collision* provides a riveting look at some of the forces that have shaped the fortunes of the three carmakers during recent decades, and provides intriguing insights into the personalities at the top of the world's dominant manufacturing industry, as well as those who have fallen by the wayside.

Best-documented by Keller is the upheaval that has riven GM, the company where her inside knowledge is greatest. She gives a damning portrait of GM during the era of Roger Smith's "wild destructive reign" in the 1980s, and during the unhappy and short-lived tenure of his successor Mr Robert Stempel.

By the beginning of the 1990s, "GM reflected more the crumbling decay of Detroit's inner city than the durability of its granite and marble headquarters building... A visit to

the 14th floor (the executive office suite) was like entering a time warp from GM's glory days. General Motors was a perfect example of the contemporary corporate malaise, where income and privileges bore no relation to performance."

While many of the GM leaders suffer from the acid of Keller's pen, she is equally telling in her description of the leading personalities at Volkswagen. Mr Carl Hahn, chief executive until the end of last year, and Mr Ferdinand Piech, the man who has spent 1993 struggling with his predecessor's doubtful legacy.

"Piech was cut from a different cloth than Hahn. While Hahn was smooth as silk, a consummate charmer who enjoyed the public stage, Piech was balding, slope-shouldered and belligerent - always uneasy in the spotlight."

At Toyota Keller leaves no doubt that she believes that the company is heading for a leadership crisis, and that in one of its most difficult periods the family has chosen a weak leader in the shape of Tetsuro Toyota, not groomed like his brother and predecessor Shinjiro, to lead the corporation. "At Toyota, regardless of how high the rank might be, everyone bowed to Shinjiro. But at Toyota Motor Sales, Tetsuro bowed to others."

The case arguing the relative weakness of Toyota only partially succeeds, but nonetheless she is ready by the end of *Collision* to pick her winner.

VW is dismissed for having "upon in its own narrow orbit" for most of its history. "Of the three companies it may be the least adaptable to change."

Toyota is the most complex because it is standing where GM was 30 years ago. "It knows how to be successful. The question is: does it know how to function in a less secure environment?"

Which is the best car company in the world? "I am compelled to answer, 'The one that has most recently overcome great problems.' Right now that company is General Motors."

Kevin Done

## ECONOMIC VIEWPOINT

# New light on 'trust versus law'

By Samuel Brittan



traditional economics and of the individual as the unit of decision, but which drops the postulates of materialism and selfishness.

Without having worked through all the detailed chapters, it is difficult to say how far he has succeeded - the book deserves more attention than it has received. Most of the analysis relates to the internal relations of organisations. The pupil who shared my first year economics supervision at Cambridge, and who worried about the selfish motives of the textbook businessmen who tried to equate marginal cost with marginal revenue, might still not have known how to react, even if he had been able to foresee this book. Nor is it clear how the advice of top Treasury officials such as Sir Terence Burns or Professor Alan Budd about the forthcoming UK Budget would be different if they had absorbed Casson's message.

Yet the basic thought behind it is sound. This is that the largest costs in a modern economy are transaction costs, and that these are minimised in an atmosphere of trust - in contrast to an atmosphere where everyone tries to take advantage of everyone else, and no one moves without a lawyer.

An example of what can go wrong has just been given by a so-called right-wing member of the British cabinet, John Redwood, when he spoke of the growth in the number of distant Health Service "managers in grey suits" all too ready to solve their problems by closing down hospitals.

What Casson does not explain is how to combine co-operation and trust with competition and the pursuit of self-interest. I still think the best solution is the one outlined in my 1985 Whittaker Lecture: an honest explanation of the benefits of competition and the profit motive as a means to the general welfare, without making this part of the "devil take the hindmost".

view of life, so bitterly satirised in JB Priestley's play *An Inspector Calls*, now enjoying such a successful revival in London.

Competition as a system of economic relations need not be based on personal hatred or mutual hostility. Rival small

**An atmosphere of trust minimises transaction costs in a modern economy**

entrepreneurs linked by electronic cable to their main customers or suppliers need hardly be more aware of each other's existence than the small farmers of Thomas Jefferson's ideal republic.

Market economics comes in many shapes and sizes. Casson

puts his finger on the mark when he writes that the supply side package imported from the US "comes laden with certain cultural presuppositions - amongst them the view that because people cannot be trusted, formal methods of enforcing competition between them are essential in all areas of activity... The US emphasis on the law as an enforcement mechanism is a related cultural attitude which may not 'travel' well."

He also describes the way in which these attitudes have been borrowed from the US when many successful private enterprise organisations are making their management styles more human and informal, supposedly under Japanese influence.

Thus his unease extends beyond British admirers of US economic and management styles and extends to the tenor of the advice that the main-

stream international organisations are giving the former communist and developing countries. How does this analysis apply to current contentious issues, such as the (now stalled) initiative to reform the civil service through devolution to smaller agencies and through market testing of services to ascertain whether they should stay the public sector?

Casson seems to see such initiatives as characteristic of an authoritarian leader who not only does not trust other people in general but "cannot even trust a few people to do his monitoring for him. The leader will also favour strong interpersonal competition, sustained by making people rivals for one another's jobs. The intensity of competition may be further raised by creating a pool of unemployed or marginal members who are ready to step into other people's jobs at short notice."

These words may be a good description of how cabinets are reshuffled in Britain. But if one wants a more co-operative style in government in general, smaller units are the first essential. Loyalty and non-material satisfactions are likely to be more important in an independent hospital or in a hived-off administrative unit than in a vast organisation like the National Health Service.

Nor, indeed, did proposals to hive off units originate with the Thatcher administration. They date back further. I first came across them in a 1960s Fabian pamphlet. Permanent secretaries who are obstructing the hiving-off drive, or proposals to advertise senior Whitehall appointments, are behaving more like male baboons fighting for territory than crusaders for higher values.

Many people have described the paradox that market liberalisation has gone hand-in-hand with a shift of power from intermediate sources of authority to central government. Casson is right to detect incipient authoritarianism behind free market rhetoric.

But another factor has surely been an excess of caution. Governments have not had the courage to undertake the drastic reforms which would make, for instance, local authorities or universities responsible for the bulk of their own financing. This is why Whitehall centralisers have acquired their hold. Perhaps the answer to the paradoxes generated by the Thatcher attempt to get the state off the people's back is to carry it further and really mean it.

## LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

## Perfume ruling cannot go unchallenged

From Prof D G Rhye

Sir, So now we know. An industry which sells products in such a way as to preserve an up-market image and to charge prices that generate a retail profit of 40-60 per cent of the retail price, and which refuses to supply outlets which might reduce that price is not acting against the public interest.

At least, so says the Monopolies and Mergers Commission in its report on the way, mainly foreign, fragrance companies distribute perfume products in the UK ("Perfume: outcome surprises observers", November 12). The report can-

not be clearer in its support of high prices when it says: "Fine fragrances are marketed as luxury products and the MMC accept that the suppliers need to be able to control their distribution in order to protect their brand images which customers evidently value. There is no shortage of other fragrances at much lower prices."

In other words, perfume companies must be allowed to restrict distribution and supply in order to keep prices high: only if they are paying high prices do consumers think they are obtaining value.

The MMC judgment on the

perfume distribution is perverse and cannot be allowed to stand unchallenged. Otherwise, all future cases of relatively high prices can be justified on the grounds of protecting the brand image to the benefit of consumers. This is not right and is unsupported by mainstream economics.

When confronted with the MMC decision the question provoked is - who guards the guardians? One answer could be a House of Commons select committee. If the Office of Fair Trading, MMC and Department of Trade and Industry cannot protect the consumer from

price exploitation parliament had better ask why. After all, to remove the barrier to lower prices would reduce the upward pressure on the retail price index and persuade government to be more positive in stimulating growth.

To undermine the position of fragrance houses, high price supermarkets, electrical and audio visual shops and so on would be a genuine supply side improvement that reduced the natural rate of unemployment.

D G Rhye,  
Head of Economics,  
Cardiff Business School,  
Cohen Drive, Cardiff CF1 1EU

## Unfortunate advice

From Mr Jeremy Becham

Sir, Tony Baldry's advice to local authorities on tendering is misguided, if not wrong. He states (Letters, November 16) that "it is not possible to decide whether Tupe applies until the contractors' proposals are seen". Not only is it often possible to make such a judgment, legal advice we have seen from local authorities indicates it would be absurd in many cases not to. Indeed, we have found that contractors often prefer the certainty of knowing what the position is when making their bid.

Mr Baldry believes he has issued further advice on this matter. I thought we were currently consulting him on this. He has clearly already made up his mind. That is unfortunate as his advice flies in the face both of the law and common sense. His letter is symptomatic of the government's attitude to Europe - seeking to evade its responsibilities. Local authorities, however, recognise they have obligations under European law and will act in the light of them.

What must be deplored is Mr Baldry's attitude in threatening local authorities that if they do not do as he says he will take action against them. It is time for a more considered and helpful approach to this problem.

Jeremy Becham,  
Chairman,  
Association of Metropolitan Authorities,  
35 Great Smith Street,  
London SW1P 3BJ

## Other ways to connect N American economies

From Mr Cameron Duncan

Sir, Your editorial on the results of the state and local elections in the US ("Democracy in retreat", November 4) included the assertion that "there is no doubt that the US economy would benefit from Nafta". There are many members of Congress, as well as citizens in Canada, Mexico and the US who would disagree with you and would favour a different sort of economic integration.

Nafta, they have discovered, is not simply a "free trade" agreement integrating the economies of North America. It is also a programme to entrench the conservative practices of the Reagan-Bush era. By tying restrictions on government regulations and services to an international trade deal, Nafta makes the

implementation of new public services and environmental protection much more difficult.

If Congress does pass Nafta, environmental regulations, health and safety standards, educational policy and labour law will all be affected. Social policy will be taken outside of the democratic process, restricted by an international agreement and regulated by unelected trade bureaucrats. Under Nafta, any US laws that restrict the sales of goods because of the way they are produced - either by environmentally-destructive processes or unfair labour practices - would be subject to challenge by Mexican or Canadian companies.

Even more important, social gains in one country would often be difficult to maintain. Why should a company comply

with costly labour or environmental laws in the US when it could avoid them by moving to Mexico? There are alternative ways to connect our economies. A new Nafta could, for example, include a social charter that would protect environmental and labour laws and provide funds for raising incomes in poorer regions. We could enjoy the advantages of international trade without enshrining the "free market" as an unlimited mechanism for organising economic life.

Greenpeace does not oppose international economic integration, but on social and economic grounds we oppose the sort of integration that this agreement would provide.

Cameron Duncan,  
Greenpeace,  
1436 U Street NW,  
Washington DC 20005, US

## West can aid former Soviet bloc nuclear clean-up

From Mr Roger Hayes

Sir, Bronwen Maddox's trip to Chernobyl (November 15/16) has highlighted the need to clean-up the contamination caused by the world's worst nuclear accident. She was right to point out that there is no evidence to support claims that 3,000 people have died as a result of the accident. However, the fact that 42 people did die and considerable contamination remains, illustrates that the nuclear industry in the former Soviet Union needs all the help it can get to put things right.

The British nuclear industry has been at the forefront of providing the necessary help.

Take contamination. A British consortium, involving among others AEA Technology, has recently developed a "Chernobyl clean-up strategy" which has been funded by the Foreign and Commonwealth Office's "know-how" fund. This will help the Ukraine secure the funding it needs for specific projects designed to return contaminated land to more normal conditions.

Russian Chernobyl-type RBMK reactors were not built to western safety standards and they had inherent design weaknesses which were exposed in the 1986 accident. In response, Britain leads a consortium of European countries

involved in a Ecu7m project, funded by the EU. This project will identify how to upgrade the safety features of RBMK reactors and how to make them as close to western standards as possible.

Britain and other western nuclear powers have the ability to put right what is wrong in the former Soviet bloc. Your correspondent's report has made a helpful contribution by keeping the whole topic in perspective.

Roger Hayes,  
Director-general,  
British Nuclear Industry Forum,  
22 Buckingham Gate,  
London SW1E 6LB

When it comes to **HUNTING** MUSLIM ROOMS,  
I have the **INANCES** of a prehistoric man.

Antonio Coluccia

Proprietor of the Neal Street Restaurant  
Cardmember since 1984



WILD FOX-guy

FOR WHAT  
WE ARE  
ABOUT TO  
RECEIVE  
AMEX

At the NEAL Street Restaurant (and most other streets)

That'll do Nicely.



Exp 11/85



## FINANCIAL TIMES

Number One Southwark Bridge, London SE1 9HL  
Tel: 071-873 3000 Telex: 922186 Fax: 071-407 5700

Thursday November 18 1993

## Talking to the Chinese

AFTER 15 years of market-oriented reform, China is transforming itself into an economically liberal, open and powerful market economy. Its cities look more and more like other Asian cities with new office and apartment blocks, busy department stores, karaoke bars, and traffic jams caused by cars instead of bicycles. The economic achievement of Mr Deng Xiaoping, China's senior leader since reform began, is already substantial, as today's FT survey makes clear.

And this process is almost certainly irreversible. The political system is too decentralised, the constituency which has benefited from reform too widespread and entrenched.

Yet for the outside world, the enduring image of China remains that of tanks crushing the 1989 protests in Tiananmen Square, a dark reminder that China's spectacular economic success has been built on a repressive one-party state. It is this contrast between China's economic dynamism and political backwardness which continues to make China's relations with the rest of the world so difficult.

The country is, without doubt, an economic force to be reckoned with, as demonstrated by the fact that the Chinese president, Jiang Zemin, will hold one-to-one meetings with the Japanese, South Korean and US leaders at this week's Apec meeting in Seattle.

Companies from east Asia and, increasingly, the US, have responded to China's open door policy by investing billions of dollars. The rest of the world's economic stake in China's development is large and growing fast.

## Inefficient bureaucracy

Not that the reality of China's economic development fully lives up to its image. The state enterprise sector remains an inefficient drain on the economy, social welfare provision is undeveloped and 100m Chinese still live in absolute poverty. Reform has also brought problems. By unleashing strong provincial ambitions, Beijing has weakened its ability to exercise macroeconomic control. Meanwhile, huge ranks of poorly-paid bureaucrats, still with considerable powers, mean that China's bureaucracy is both inefficient

and riddled with corruption.

But it is the manner in which China conducts its internal affairs which remains the biggest problem for many outsiders, particularly in America. The rule of law and freedom of speech remain subservient to the party line, while documented human rights abuses are legion. Little wonder that the US has been tempted to link economic concessions - in particular on trade - to progress on non-economic issues.

Human rights President Bill Clinton's success in persuading Congress to renew China's Most Favoured Nation status this year depended, in part, on his willingness to link next year's renewal to China demonstrating "substantial progress" in tackling human rights abuses, progress which China has yet to demonstrate convincingly.

Yet to try to ostracise China from the world community or to blunt its open economic development would be a grievous error. Market reform in China may be irreversible, but the outside world has the power to speed or impede that process. And the pace at which this change occurs is, almost certainly, the most important determinant of the rate of political change.

The evidence from elsewhere - South Korea and Taiwan are good examples - is that economic growth and liberalisation intensify the pressure for political freedom and democratic change. Closing the door on China, and thus effectively slowing the flow of western capital, practices and ideas into the country, can only slow that change.

In short, removal of China's MFN status is the best way to encourage political change, a fact that in recent weeks Mr Clinton has shown he recognises. His desire to engage China in a co-operative rather than antagonistic relationship is the right course. China's new wealth and status mean that it too has bigger responsibilities - to honour its obligations to counter nuclear proliferation, ecological progress on human rights and to settle outstanding trade disputes. But progress is more likely to be achieved if US concerns are carefully explained rather than delivered with menaces.

Last month, Mr Hubner was awarded £2,000 by an industrial tribunal after he failed to get a £90 a week job at a Carlisle factory. The tribunal accepted his complaint that he was rejected because he wanted to take advantage of the company's subsidised child-minding scheme, available for women workers.

In an earlier case, Mr Shiels won £600 compensation after being rejected for a job as a nurse at Tynbrook Tots nursery in Liverpool. The driving force behind men's encroachment into previously female territory is primarily economic. The official male unemployment rate - almost 14 per cent of the workforce in September - is more than twice the equivalent female rate.

Mr Hubner and Mr Shiels represent only the tip of a small, but growing, iceberg. The Equal Opportunities Commission says that, of the 1,283 complaints it received last year about sex discrimination in companies' hiring and recruitment policies, 40 per cent had come from men - a 10 percentage point increase on the previous year.

The EOC also says males are "more stumpy" about complaining. "Men are quicker to take advantage of equal opportunities legislation - so much so that, because of lack of funds, we are having to prioritise in women's favour," says the EOC's Ms Fiona Fox.

At the same time, the recession is forcing changes in corporate behaviour. A Confederation of British

Industry paper earlier this year noted that high unemployment had reduced the pressure to bring members of under-represented groups into the labour force and to improve their skills.

Though joblessness largely explains the behaviour of companies and individual males, there are promoting women. But the Labour party recently provided evidence of a possible groundswell of male opinion against affirmative action: Labour MPs reacted to what some described as an "assisted places scheme" for females in shadow Cabinet elections last month by throwing two women, Ms Harriet Harman and Ms Ann Clywd, off the front bench team. However, Mr John Smith, the Labour leader, reinstated Ms Harman as shadow Treasury chief secretary.

Meanwhile, the EOC has received complaints from several would-be male Labour MPs about the party's proposed ban on men standing in half the parliamentary seats where the local constituency organisation is looking for a new candidate.

All this is bad news for those trying to improve the position of women in work, as the hurdles they face seem as high as ever. A survey of 178 countries by the Geneva-based International Labour Organisation said that, on current trends, women will take 475 years to achieve equality with men in "managerial" or "decision-making" positions in all sizes of companies.

While men have risen rapidly to the top of almost every female-dominated profession they have entered, women have no comparable success in traditional male dominated fields - such as the civil service.

For instance, males make up just 7 per cent of all qualified nurses in Britain. But above the level of senior nurse, men outnumber women, according to the Royal College of Nursing. "Men are more assertive because they are not worried about getting pregnant and interrupting their careers," says Mr Jamie Fleming, of the RCN.

Similarly, of 35,000 practising midwives in the UK, only 53 are male. But one, Mr Paul Lewis, who qualified in 1979, already has one of the country's top midwifery jobs - director of women's services at West London Hospital.

Though women may envy male success, there is a case for arguing that they should not gripe about the readiness of men to resort to the law to increase their job chances: the EOC argues that any act that increases awareness of sex discrimination by companies can only be beneficial to all in the long run.

German industry is still reeling from its setback in what Mr Martinussen calls "the Korea shock". The final decision in favour of the TGV was said to be because the French train had proved itself for more than a decade, whereas the ICE has only been running since 1991.

Government support is essential to win such massive prestige contracts, Mr Martinussen says. "It is a question of lots of money, and long-term co-operation. This is only possible if the political will exists."

Yet he admits that in the US market, for example, the successful contractor will be decided on the basis of "technology, price and local content. It won't help us much if Chancellor Kohl goes over there."

Two crucial developments lie ahead. The first is the need to develop multi-system, cross-border trains. If the European links are to become reality, the trains must be able to deal with a host of electricity voltages, signalling systems, and safety standards on different national rail systems. They must also become decidedly cheaper.

This all adds up to good news for the consumer. But for the producers, it raises the question of whether all can survive.

Mr Darmon believes not. "I doubt very much there is room for three high-speed train manufacturers in Europe," he says, referring to GEC-Alsthom, Siemens-AEG, and the five-company Trevi consortium, the Italian high-speed train venture led by Breda. "The investment in R&D and the cost of developing prototypes is too high if you don't win contracts," he adds.

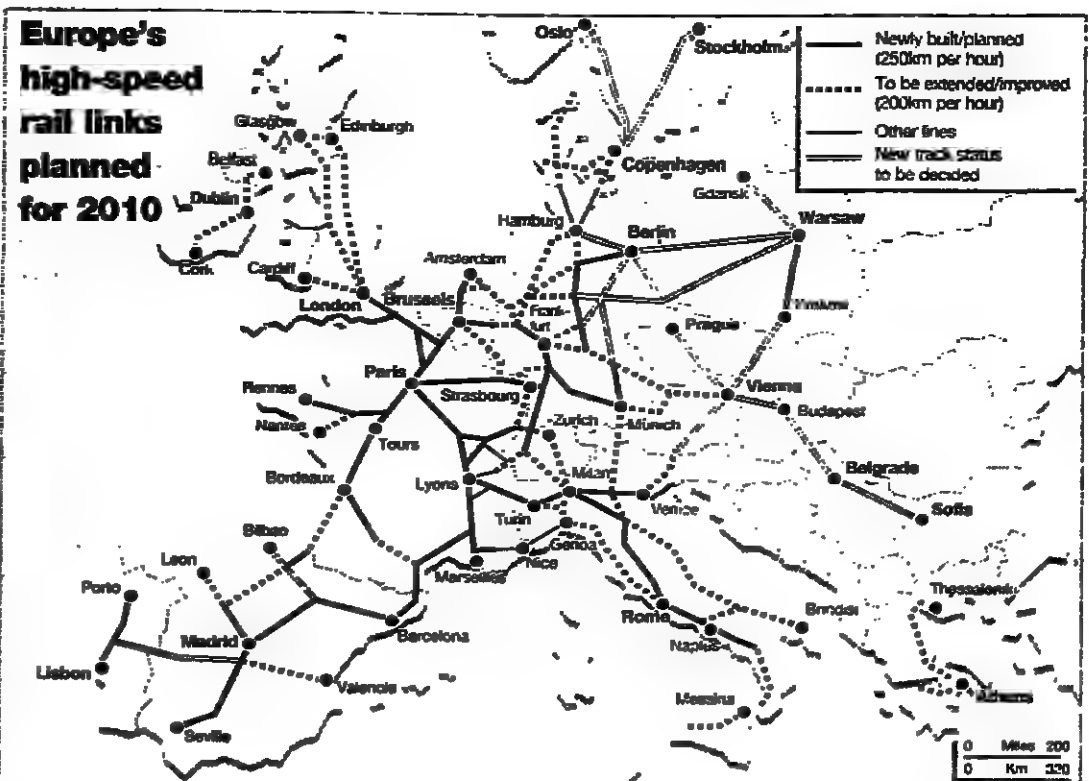
The intensity of competition could encourage collaboration. "We are open to co-operation with anyone, and why not Siemens?" asks Mr Darmon. Such a view is supported by the French and German governments, which last year appointed representatives to examine possible co-operation.

The representatives have a delicate task in accommodating national rivalry. Mr Darmon says co-operation would have to consider the fact that 570 high-speed trains have been manufactured by or ordered from GEC-Alsthom, while the comparable figure for the German consortium is 120. He adds that any partnership between the two groups should be based on cost and efficiency considerations and not national and political splits.

Mr Martinussen seems to be more interested in a link-up with the Italian consortium. "I am convinced we will have two trains in Europe," he says. "There is a big enough market at the moment. Whether we can keep that for good is another matter. But that is a question for the railway companies, and the politicians."

## John Ridding and Quentin Peel on the competition between European groups for high-speed rail contracts

## Next chapter of the railway children



## Europe's high-speed rail links planned for 2010

Siemens and AEG have just spent DM17m (£5.7m) sending a full ICE train to the US, first to undertake a coast-to-coast promotion trip ("Ride the ICE train, the hottest thing on rails" goes the blurb), and now to run for a three-month trial period on the Amtrak lines from Washington to New York.

Both sides have taken in US partners: GEC-Alsthom has linked up with Morrison-Knudsen, and Siemens-AEG with General Motors. Even so, Mr Martinussen believes, "the US market will develop quite slowly".

In Europe, therefore, the potential may be greater. At the moment the economic environment is difficult. The effects of recession and the constraints on government budgets have forced the postponement of several TGV orders. Last month, GEC-Alsthom was forced to announce a cost-cutting plan which includes the loss of 660 jobs from its

French workforce of more than 9,000. But the first steps of a significant expansion in European high-speed rail links are under way.

The decision by the French government in September to build a new high-speed line between Paris and Strasbourg raises the prospect of the TGV travelling across the border into Germany. It will already do so on the planned Paris-Brussels-Amsterdam and Cologne route, for which 27 trains have been ordered.

The French authorities have also authorised an extension of the south-eastern line from Lyon to Marseilles and to Montpellier. That would all appear to be to the clear advantage of the TGV.

In Germany, however, the ICE consortium has just won the DM2.2bn next-generation contract for an ICE-2, half the size of the original train, but capable of being linked in pairs to provide greater flexibility. ICEs are now running between Hamburg in the north

and Berlin in the east to Frankfurt, Munich, Stuttgart and Zurich in the south and west. In its 1994 summer timetable, the German Bundesbahn plans to extend the ICE to Vienna.

While the prospects for demand appear healthy, the competition to supply high-speed rail contracts is likely to remain fierce. This is largely the result of the nature of the industry. The market for such networks is comprised of a relatively small number of large projects which come up only every few years and which last for many years. The South Korean contract, for example, is not expected to be completed until 2002.

For GEC-Alsthom and its rivals this time lag makes each contract critical. The experience acquired on one puts the manufacturer in a stronger position for the next. Similarly, the economies of scale obtained by winning several contracts allow cheaper pricing in future bids.

Women's jobs are increasingly being poached by the opposite sex, writes Rachel Johnson

## Men still on top

Mr Alan Hubner, aged 27, of Wigan, Cumbria and Liverpool and Mr Charles Shiels, 50, have yet to make an impact as the male equivalents of the suffragette Pankhurst family.

But history books might reserve them a footnote each. After decades in which women have battled to take jobs traditionally held by men, the roles are being reversed.

Last month, Mr Hubner was awarded £2,000 by an industrial tribunal after he failed to get a £90 a week job at a Carlisle factory. The tribunal accepted his complaint that he was rejected because he wanted to take advantage of the company's subsidised child-minding scheme, available for women workers.

In an earlier case, Mr Shiels won £600 compensation after being rejected for a job as a nurse at Tynbrook Tots nursery in Liverpool.

The driving force behind men's encroachment into previously female territory is primarily economic. The official male unemployment rate - almost 14 per cent of the workforce in September - is more than twice the equivalent female rate.

Mr Hubner and Mr Shiels represent only the tip of a small, but growing, iceberg. The Equal Opportunities Commission says that, of the 1,283 complaints it received last year about sex discrimination in companies' hiring and recruitment policies, 40 per cent had come from men - a 10 percentage point increase on the previous year.

The EOC also says males are "more stumpy" about complaining. "Men are quicker to take advantage of equal opportunities legislation - so much so that, because of lack of funds, we are having to prioritise in women's favour," says the EOC's Ms Fiona Fox.

At the same time, the recession is forcing changes in corporate behaviour. A Confederation of British

Industry paper earlier this year noted that high unemployment had reduced the pressure to bring members of under-represented groups into the labour force and to improve their skills.

Though joblessness largely explains the behaviour of companies and individual males, there are promoting women. But the Labour party recently provided evidence of a possible groundswell of male opinion against affirmative action: Labour MPs reacted to what some described as an "assisted places scheme" for females in shadow Cabinet elections last month by throwing two women, Ms Harriet Harman and Ms Ann Clywd, off the front bench team. However, Mr John Smith, the Labour leader, reinstated Ms Harman as shadow Treasury chief secretary.

Meanwhile, the EOC has received complaints from several would-be male Labour MPs about the party's proposed ban on men standing in half the parliamentary seats where the local constituency organisation is looking for a new candidate.

All this is bad news for those trying to improve the position of women in work, as the hurdles they face seem as high as ever. A survey of 178 countries by the Geneva-based International Labour Organisation said that, on current trends, women will take 475 years to achieve equality with men in "managerial" or "decision-making" positions in all sizes of companies.

While men have risen rapidly to the top of almost every female-dominated profession they have entered, women have no comparable success in traditional male dominated fields - such as the civil service.

For instance, males make up just 7 per cent of all qualified nurses in Britain. But above the level of senior nurse, men outnumber women, according to the Royal College of Nursing. "Men are more assertive because they are not worried about getting pregnant and interrupting their careers," says Mr Jamie Fleming, of the RCN.

Similarly, of 35,000 practising midwives in the UK, only 53 are male. But one, Mr Paul Lewis, who qualified in 1979, already has one of the country's top midwifery jobs - director of women's services at West London Hospital.

Though women may envy male success, there is a case for arguing that they should not gripe about the readiness of men to resort to the law to increase their job chances: the EOC argues that any act that increases awareness of sex discrimination by companies can only be beneficial to all in the long run.

Great Britain's annual City lunch, which despite its name was held in Whitehall, Healey revealed that his grandfather had been "a Fenian from Fermanagh", and that he himself was a "great believer in muck and magic."

But despite such a bellicose background, he chose to praise Prime Minister John Major for "opening the door to talks". There really was no practical alternative to talking to terrorists to solve political problems, he said.

If only that thought had occurred to him 24 decades ago.

Phony excuse ■ New telephone discourtesies continue to proliferate: a colleague has just been telephoned by a computer to be told it was putting him on hold, while the person on the other end of the line finished off another call.

Common cause ■ Among all the clamour in Sweden over the planned Volvo-Scania merger, there has been a deafening silence from the Wallenberg family, the titans of Swedish industry.

But at last Peter Wallenberg, the current dayer of the dynasty, has pronounced - and it is welcome news for Volvo boss Pehr Gyllenhammar, who has long been the most powerful rival to

Wallenberg industrial dominance. In a newspaper interview, Wallenberg backed the merger in principle, saying the three-year-old alliance between Volvo and Scania was a "half-cooked egg". His comments are a considerable disappointment to the anti-merger camp, led by Aktiespararna, the small shareholders association.

Everyone in Sweden remembers the occasion in 1979 when Marcus Wallenberg, Peter's late father, dealt a knock-out blow to Gyllenhammar's grand scheme of the time, to sell 40 per cent of Volvo to the Norwegian government in exchange for North Sea oil concessions.

Patent nonsense ■ Education secretary John Patten seemed deeply hurt this week when Sir Claus Moser's National Commission on Education published its report without tipping him off in advance about its contents.

This caused a few raised eyebrows at the NCE since it had bent over backwards to try to ensure that Patten would be one of the first to get an advance peek. Problem was Patten's officials refused to give out their boss's personal address or phone number.

Undeterred, the NCE agreed to bibe an advance copy of the report to the home of Jim Coe, Patten's chief press officer, in leafy Hampshire. Coe is normally formidably efficient, but on this occasion, two days later, he had still not managed to press a copy of the report into his master's hands. So Patten was completely unable to comment.

How inconvenient. ■ Lord Healey, who as plain Denis Healey sent British troops into Northern Ireland 25 years ago when defence minister in a Labour government, yesterday delivered a volte-face of impressive stature. Speaking at The Irish Fund of

## OBSERVER



Wallenberg industrial dominance. In a newspaper interview, Wallenberg backed the merger in principle, saying the three-year-old alliance between Volvo and Scania was a "half-cooked egg". His comments are a considerable disappointment to the anti-merger camp, led by Aktiespararna, the small shareholders association.

Everyone in Sweden remembers the occasion in 1979 when Marcus Wallenberg, Peter's late father, dealt a knock-out blow to Gyllenhammar's grand scheme of the time, to sell 40 per cent of Volvo to the Norwegian government in exchange for North Sea oil concessions.

Clear enough ■ As South Africa's leaders put the finishing touches to the interim constitution, would-be designers of a new national flag have been flooding the multi-party negotiating council - in charge of picking a fitting post-apartheid emblem - with their ideas.

Bombarded by some 70,000 submissions from the public, the council whittled them down to six - and then discarded those, calling in ad agencies (including Saatchi & Saatchi and Ogilvy & Mather) for a rethink. But Observer just can't understand why the powers that be did not go ahead with an early entry: a see-through piece of plastic, depicting transparency in government.

Common touch ■ If a number of their Lordships are looking a little green at today's state opening of parliament, do not adjust your set. The explanation is that they have probably been enjoying the latest

vintage to be introduced to the House of Lords cellar specially for the occasion - a lively little English Vin Nouveau from that well-known negotiator, the Co-operative Wholesale Society.

Scaled down ■ Has samizdat spread West? Coincident with lengthening shadows over press freedom in the UK comes the launch of a monthly current affairs magazine. The New Reporter will be published over the desk top by Lizard Press in Cornwall and edited by husband and wife duo, ex-FT features editor John Bourne and ex-Guardian journalist Jean Stead. But the seat-of-the-pants nature of the operation seems to be underlined by Stead's admission that, presently, the money only stretches for the first six months. Hardly surprising seeing the cover charge for the 20-page mag is just one quid.

Spooked ■ Observer obviously got it wrong yesterday, as a much simpler explanation now emerges for why the ghost of John Julius Angerstein, the father of Lloyd's, might be found hovering around Coutts's branch in the Lloyd's insurance building. Naturally he has been investigating a phantom cash-point withdrawal spotted on his bank statement.

Common touch ■ If a number of their Lordships are looking a little green at today's state opening of parliament, do not adjust your set. The explanation is that they have probably been enjoying the latest



## Belgian austerity plan pushes up share prices as interest rates fall

By Lionel Barber in Brussels

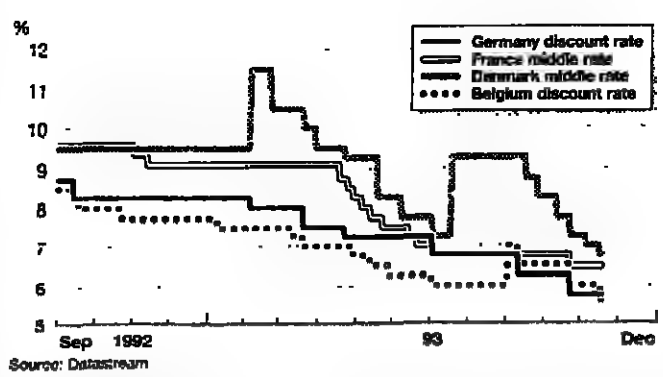
THE BELGIAN government agreed early yesterday to a wide-ranging austerity plan, prompting a reduction in two leading interest rates and a euphoric reaction in the country's financial markets.

After 16 hours of talks, ministers backed a three-point package which imposes cuts on social spending and limits wage increases to the rate of the inflation until the end of 1996. The pact also contains new measures to tackle rising unemployment, particularly among young people.

The Belgian National Bank responded by cutting the discount rate from 8 per cent to 5.5 per cent, while reducing the money market rate from 9.4 per cent to 8.3 per cent. The Belgian franc strengthened against the D-Mark to close at BF21.55 on the hopes the rate cut would help revive the economy.

Mr Jean-Luc Dehaene, prime minister, hailed the agreement as good for Belgium and for Europe. The plan draws some inspiration from the forthcoming European Commission white paper on competitiveness, growth and employment which will be the centrepiece of next month's EU summit

Interest rates since Black Wednesday



In Brussels, to be chaired by the Belgian presidency.

Among the social pact's chief points are a planned reduction of around BF75bn (\$2.1bn) in spending on health care, family allowances and pensions. The most sensitive proposal is to reduce family allowances in relation to family income, starting at a threshold of BF750,000 a year.

In order to promote job creation, the government proposes to reduce sharply the costs of hiring labour. Businesses will be fully exempt from paying social costs in the first year when employing people under 25 years

old, reducing to 75 per cent and 50 per cent exemptions in the second and third years. It also proposes job-sharing to increase the number of people in work.

To raise revenue, the government plans to raise the level of withholding tax on interest income from 10.3 per cent to 13.39 per cent. The level of withholding tax on dividends is to be cut from 25 per cent to 13.4 per cent.

The fate of the package will depend partly on whether Mr Dehaene's fragile centre-left coalition can win support among opposition parties and blunt opposition within Belgium's pub-

lic sector trade unions. Rolling strikes were held in Belgium this week in protest against the pact.

Initial reaction among potential opponents was guarded. The Socialist party declared it had helped to make the austerity plan more equitable, but said it would remain vigilant on the application of the planned measures.

The Belgian economy is expected to shrink by 1.5 per cent this year. Belgium has the highest public debt in the EU as a proportion of gross domestic product.

The level of indebtedness has undermined financial markets, and damaged confidence in Belgium's claims to be part of a currency club built around the D-Mark, particularly after the near collapse of the exchange rate mechanism in August, which followed sterling's exit from the ERM on so-called Black Wednesday in September last year.

Belgian government bonds climbed nearly a point after the cut in interest rates. The Bel-20 index of leading shares jumped 21.8 to close at 1,397, despite earlier concerns that the new taxes might undermine the positive impact of lower interest rates.

Currencies, Section II  
World stocks, Section II

## Passions flare as Nafta vote nears

Continued from Page 1

would be "academic", said Mr Bill Daley, the White House's Nafta co-ordinator.

An Associated Press count early in the afternoon suggested that the agreement had secured support from at least four more members than the 218 needed for passage. A more conservative tally from the House whip's office put it four votes short, but with the probability of picking up the difference.

Significantly, Congresswoman Marcy Kaptur, the Democrat from Ohio and a leading Nafta opponent, conceded that she thought Mr Clinton would carry the day, mostly, she added with scorn, on the back of support from the Republican party.

The president went running in a pro-Nafta T-shirt and said "it's never in the bag until the vote's in". He had despatched officials by the dozen to Capitol Hill to keep up the pressure, as had the

anti-Nafta forces. Mr Ross Perot, the Texas populist, was behaving exactly like the lobbyists he constantly condemns as he toured the halls exhorting members to vote against.

On the House floor itself, the early part of the scheduled eight hour debate heard complaint after complaint that Mr Clinton had tried to buy a triumph by giving away the store. "It's Nafta Claus time at the White House," said Mr David Bonior, the Michigan Democrat and leading anti-Nafta strategist.

"It's \$50bn in goodies and giveaways," shouted Mr Gerald Solomon, the New York Republican, citing favours he said had been given to the makers of manhole covers in Louisiana and aircraft manufacturers in California. Nafta, he charged, established an "unelected, unaccountable bureaucracy" that would undermine the US constitution.

But his assault on everything Mexican, especially its "64-year-

old, one party dictatorship" of a government, was too much for Kika de la Garza, the Democrat from Texas who rules the House agriculture committee.

"I share blood with the Mexican people," he barked back, "and I resent the xenophobia I've been hearing on this floor." Reaching back into the last century, he turned to Mr Solomon and others who had spoken in the same vein. "They want a Mexican government run by the US, but let me remind you, we tried that and it didn't work."

Perhaps unconsciously, George Miller, the California Democrat, evoked memories of former British prime minister Harold Macmillan's words condemning the Thatcher government's attitudes to the British miners "who had helped defeat the Nazis". The American worker, Mr Miller declared, "had helped win the cold war and now are not even being given an afterthought".

## £1m London fund to beat IRA bombs

By Jimmy Burns in London

LONDON-based financial institutions have contributed to a £1m (\$1.9m) fund to reward those who give the police information on attacks by the Irish Republican Army on economic targets.

The identity of the fund's main sponsors is being kept secret but the National Westminster Bank, whose City of London office was badly damaged in a bomb attack in April, said it strongly backed the initiative.

The Bank said: "This is an important additional mechanism that will help pursue those responsible for terrorist attacks." Scotland Yard said the initiative had been developed by anti-terrorist officers and managers of UK-based companies.

The money comes from dozens of companies around the country and will be administered by joint agreement between the police and the main sponsors.

It is not clear yet whether the full sum will be held in an escrow account or remain the responsibility of the companies until it is needed.

Scotland Yard said last night: "Our experience is that we do not have to provide financial inducement to get useful information on terrorist activities. But if there is a slight chance that an individual might be tipped over by a reward, then we should take it."

The initiative was prompted by the commercial costs of recent IRA attacks.

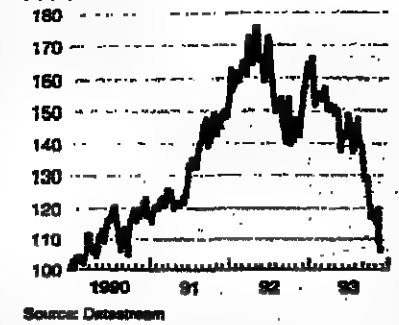
## Courtaulds catches cold

THE LEX COLUMN

FT-SE Index: 3120.0 (+22.5)

Courtaulds

Share price relative to the FT-SE All-Share Index



looks lower than previously expected. It also appears that, at least in the domestic market, consumers' price consciousness is preventing companies from pushing up margins much.

This background will make it much harder for Mr Clarke to resist pressure to follow continental European interest rates lower, especially if starting continues to rise against the D-Mark. Fierce price competition among supermarkets should also dampen inflationary expectations. In theory Mr Clarke could cut rates even if he announced minimal tax increases in the Budget. Since there is little prospect of the PSBR significantly undershooting the treasury's £50bn forecast, he has in practice an even better opportunity to tackle the deficit as well.

Land Securities

Having basked in glory throughout recession thanks to its defensive virtues, Land Securities has seen its halo dim as the property sector has been hit. Although its shares have shot up from 35p to 79p since starting, a decision from the Exchange Rate Mechanism, Land has still underperformed the sector by 12 per cent. Its weighting of the quoted property sector has dropped from 35 per cent of the total to 27 per cent over that time.

Nevertheless, Land should not be ignored altogether until the next recession looms. Its great run collecting machine keeps rolling and its balance sheet strength makes it one of the precious few property companies capable of sustaining aggressive dividend policy. Moreover, while property shares remain so far ahead of underlying market fundamentals, Land will

continue to provide a relatively safe haven against economic setbacks. The company, however, remains cautious about prospects. Recovery is fragile, with occupational market rents continuing to fall in central London.

But Land will have to step up its acquisition programme if its shares are not to be left behind when recovery grips. It was a pity, therefore, that it was unable to commit more than £70m in the first half when the opportunities appeared greatest. The flood of institutional investors into property has now dampened yields, making it difficult to buy on good terms. Nevertheless, Land's expertise may yet enable it to unearth some bargains and it can easily gear up to spend £500m. That scale of spending may be required, though, if Land is quickly to re-align its rental and earnings growth.

Lucas Industries

After an agonisingly long wait, Lucas has finally got its man. It is more than a year since the company renewed its search for a chief executive to replace the retiring Sir Anthony Gill, and two years since the quest originally started. As a new leader for Lucas Mr George Simpson is a near-perfect candidate. His experience in helping to transform Rover will be invaluable, as will his aircraft industry connections with British Aerospace, so it is a pity that Lucas did not find him earlier. The delay will have done little to boost morale and, in that context, it is unfortunate that BAE now wishes to hang on to him until May.

Still, however belatedly, Mr Simpson is just the man to take the difficult decisions which Lucas faces. The company will have to examine how many expensive development projects it can afford to fund. Its applied technology division may need further rationalisation. Most importantly, he will need to motivate and encourage the management team to turn the company round in much the same way that he did at Rover.

All of that should underpin Lucas's nascent recovery. Unfortunately for the incoming chief executive, the company's share price already discounts most of probable earnings gains over the next two years. He may thus have to wait for his efforts to be reflected in the stock market. BAE, meanwhile, has suffered a heavy blow. Yet given Mr Simpson's talent for promoting good people to support him, it should be able to make good the loss.

## Britain threatens US flights to Heathrow

Continued from Page 1

Lord Calthness, the UK aviation minister, described the US decision as a "provocative act quite contrary to our agreement with the US".

He added the UK government felt the move would prejudice BA because airlines cannot plan on a 60 days basis.

The UK is not taking immediate action, but has given notice it will withdraw permission for one flight a week each by American

Airlines and United Airlines from Heathrow to Chicago and Washington respectively from 12 January - the date BA's code sharing approval expires, unless renewed by the US before then.

It is the first time the UK has threatened to block flights by US carriers in London, but Lord Calthness said the government felt it had no option.

He said the UK was committed to liberalisation, but the "open skies" negotiations with the US were a separate issue with the

existing Heathrow agreement.

Washington had so far given no explanation for its action, except to state that the decision was linked to the current bilateral talks with the UK over a new aviation agreement.

Washington has come under heavy pressure from the big three US carriers - American, United and Delta - for allowing BA to form an equity partnership with USAir. The US carriers have also sought more access into Heathrow.

### FT WORLD WEATHER

#### Europe today

A wide and stationary high pressure system over north-west Russia and the Baltic states will gain more strength over the next few days. It will continue to dominate conditions over continental Europe and much of Russia by bringing calm and wintry weather to most areas. Sunny periods will extend from southern Scandinavia to Spain. Cloudy conditions are expected over central Europe. A few flurries are likely over Poland and sleet over the Black Sea. There will be showers in the central and eastern regions of the Mediterranean and an increased risk of thunder in the south of Italy. Frontal disturbances over the Atlantic will affect western regions of the British Isles.

#### Five-day forecast

The Russian high will continue to build and expand slightly towards Scandinavia. There will be an extensive easterly flow of air across Europe which will result in the movement of even colder air from the east. Cloudy intervals are expected over central and eastern Europe with the likelihood of snow later on. Temperatures will drop over the UK as well as the wintry air mass arrives during the weekend.

#### TODAY'S TEMPERATURES

Location	Max	Min	Weather
Abu Dhabi	31	24	rain
Algiers	16	10	cloudy
Amsterdam	10	5	rain
Athens	11	6	cloudy
B. Aires	20	15	cloudy
Bangkok	35	25	sun
Barcelona	14	9	sun
Beijing	4	-1	sun
Belfast	9	4	rain
Berlin	10	5	cloudy
Bombay	28	23	rain
Buenos Aires	20	15	sun
Calcutta	28	23	sun
Cardiff	10	5	cloudy
Chicago	10	5	cloudy
Cologne	10	5	cloudy
D. Salim	20	15	sun
Dallas	22	17	sun
Dhaka	32	27	sun
Dubai	28	23	sun
Dublin	10	5	cloudy
Dzibrovnik	24	19	sun
Edinburgh	7	2	cloudy
Faro	19	14	sun
Frankfurt	10	5	cloudy
Geneva	10	5	cloudy
Gibraltar	17	12	sun
Hamburg	10	5	cloudy
Helsinki	10	5	cloudy
Hong Kong	25	20	cloudy
Honolulu	29	24	sun
Istanbul	10	5	cloudy
Jersey	11	6	cloudy
Karachi	29	24	sun
Kuwait	24	19	sun
Las Palmas	22	17	sun
Lima	22	17	sun
London	10	5	cloudy
Luxembourg	10	5	cloudy
Lyon	10	5	cloudy
Madrid	21	16	sun
Manila	33	28	sun
Moscow	10	5	cloudy
Mumbai	29	24	sun
Montreal	10	5	cloudy
Munich	10	5	cloudy
Nairobi	29	24	sun
Naples	24	19	sun
Nassau	21	16	sun
New York	10	5	cloudy
Nice	10	5	cloudy
Nicosia	10	5	cloudy
Oslo	10	5	cloudy
Paris	10	5	cloudy
Perth	10	5	cloudy
Prague	10	5	cloudy
Rangoon	33	28	sun
Reykjavik	10	5	cloudy
Rio	10	5	cloudy
Riyadh	27	22	sun
S. Francisco	10	5	cloudy
Seoul	10	5	cloudy
Singapore	29	24	sun
Stockholm	10	5	cloudy
Strasbourg	10	5	cloudy
Sydney	22	17	sun
Taipei	20	15	sun
Tel Aviv	22	17	sun
Tokyo	10	5	cloudy
Toronto	10	5	cloudy
Tunis	10	5	cloudy
Vancouver	10	5	cloudy
Venice	10	5	cloudy
Vienna	10	5	cloudy
Warsaw	10	5	cloudy
Washington	10	5	cloudy
Wellington	10	5	cloudy
Winnipeg	10	5	cloudy
Zurich	10	5	cloudy

### Lufthansa Express

The best connection in Germany

## Lufthansa

German Airlines

## IN-DEPTH RESEARCH depends on teamwork. Simple enough in theory, perhaps, but practice is quite another matter.



Every stock recommendation is ultimately underpinned by pure information. The question is, how good is the information? How astutely is it analyzed? At Lehman Brothers, our analysts, the institutional investors that we serve and the companies we have under coverage all contribute to a process in which investment hypotheses are formed, challenged and refined until they can withstand the scrutiny of multiple perspectives.

### QUALITY RESULTS. THE BENEFITS OF TEAMWORK

Within the firm, an analyst who identifies a stock with unusual potential confers with colleagues in related fields to pool information and insights. This teamwork is an essential step in turning potential into a recommendation. Validation is sought from a variety of sources. The companies we cover provide valuable feedback on trends as well as fundamental data. Our analysts then go to these companies' competitors and suppliers to test and substantiate the information.

Similarly, we consult with the very institutions who rely on our investment conclusions.

Additionally, our international network of analysts interact with each other to share information on industries, clients and economic trends to ensure that Lehman Brothers' perspective is strengthened by global sectoral research. Like continuous distillation, the process is repeated until the research team is satisfied - or the idea is discarded.

### AN INVITATION TO SAMPLE OUR THINKING

If you would like an example of the recommendations that result from this approach, contact your local Lehman Brothers representative for a copy of our *Global Portfolio Perspective*, a comprehensive overview of market, economic and political trends, as well as specific investment opportunities by industry group. If your company has a problem or opportunity that could benefit from the quality of thinking we've described, we are ready to work with you.

## LEHMAN BROTHERS

Lehman Brothers International (Europe) is a member of S.E.A. © 1993 Lehman Brothers Inc.

which involve the... of more than 20 reactors. At the very least Russia is likely to need World Bank help if it is to proceed. In the Ukraine, unable and

and western nuclear... Mr Remy Carle, chairman of the WANO governing board and deputy general manager of Electricite de France, told the

economy, supplies... fuels and other factors over which the nuclear industry has little control.







## INTERNATIONAL COMPANIES AND FINANCE

## Merrett Group fails to secure Travelers' backing

By Richard Lapper in London

THE future of the Merrett Group, one of the largest agencies at the Lloyd's of London insurance market, was in question last night after the breakdown of a US plan to provide new backing for the group.

Merrett said that Travelers, the US insurance company, had withdrawn a scheme to underwrite business alongside syndicates managed by Merrett on a so-called consortium basis.

Travelers, recently taken over by Primerica, the financial services group, would have bought a large stake in the Merrett managing agency, in a deal which would have helped offset a sharp decline in support for Merrett syndicates from Names - the individuals whose assets have backed the

Lloyd's market. Travelers refused to comment last night. Merrett is seeking the backing of other Lloyd's agents, but it is understood that talks earlier this week between Merrett and AJ Archer Holdings have been unsuccessful.

The affair completes an unhappy year for Mr Stephen Merrett, a powerful underwriter and chairman of the Merrett Group. He resigned as deputy chairman of the market following pressure from Names and their agents in August.

Executives of Primerica are said to have viewed the Merrett deal as an unnecessary complication at a time when their plans to take over Travelers were incomplete.

Mr Bob Clements, president of Marsh & McLennan Companies, which owns the world's largest broker, which helped

engineer the Travelers deal, yesterday reaffirmed support for the group, describing criticism of Mr Merrett as "personalised and without regard to underlying fundamentals".

A Bermuda-based company, set up this year by Marsh and JP Morgan, to provide reinsurance for Merrett syndicates would continue to operate.

However, Marsh, and JP Morgan, would not be taking stakes in the Merrett agency, a move they had agreed as part of the Travelers plan. "There is no point in us taking a stake except in so far as that was a catalyst to attract other capital," said Mr Clements.

Merrett will seek support from members' agents, which handle the affairs of Names. But agents were downbeat about group prospects after meeting Mr Merrett yesterday.

## Rover chief is picked to head Lucas Industries

By Andrew Bolger in London

LUCAS Industries, the UK automotive and aerospace components group, yesterday finally confirmed that its next chief executive would be Mr George Simpson, currently deputy chief executive of British Aerospace and chairman of Rover Group, BAe's vehicles subsidiary.

The Midlands-based group has been trying for months to secure the services of Mr Simpson, 51, who is given much of the credit for the revival in Rover's fortunes. His appointment will go a long way to allaying City concerns over Lucas's protracted management succession.

Lucas declined to give details of Mr Simpson's salary, but dismissed rumours that he had been offered £1m a year and a £3m (£4.7m) bonus.

There was some surprise that Mr Simpson will not be joining Lucas until May 1 and that Sir Anthony Gill, chairman and chief executive since 1987, will continue as non-executive chairman. However, it is expected that Sir Anthony, 63, will only stay on for as long as it takes to choose a new chairman, with Mr Simpson's full involvement.

Mr Simpson said: "I am delighted to be joining the successful Lucas team and to be taking over its leadership from Tony Gill. My experience at Rover and British Aerospace tells me that there are few more competitive business sectors than automotive and aerospace and I fully understand the magnitude of my new challenge."

Last year Sir Anthony was asked to postpone his retirement until the succession was sorted out.

Lucas was cited as a possible takeover target after recession caused profits to slump and its shares touched a five-year low of 78p in September last year. They have since recovered to 177p as the group has cut thousands of jobs and sold several businesses. The restructuring helped pre-tax profits double to £50.3m this year.

Rover analysis. Page 24; See Lex. Page 16

## France sharpens missile strategy

David Buchan examines global reorganisation of the defence industry

French missile-makers' international negotiations are gathering pace. Matra is pledged to form a joint missile company with British Aerospace (BAe) by the end of the year. Aérospatiale is locked into similar discussions with Deutsche Aerospace (Dasa) with a view to merging their missile interests into a single unit with a market share rivaling Hughes of the US.

The role of the French missile companies will be crucial to any industry reorganisation.

For one thing, there are more of them than in any other European country. In addition to Matra and Aérospatiale, there is Thomson-CSF, the heavyweight of French defence electronics, and a host of smaller electronic suppliers.

France has also cut its defence equipment budget by less than other European countries in the last three years, and plans to increase it slightly next year, to FF103bn (£17.5bn).

The French defence sector's total turnover has declined from its high point of FF124.5bn in 1990 to FF113bn last year, largely due to the drop in export deliveries, to FF29bn.

New orders, however, hit a record FF45.7bn last year, with Taiwan's decision to buy Dassault's Mirage jets and Matra's missiles, and Abu Dhabi's purchase of the Leclerc tank

made by France's state-controlled Giat Industries.

A recent parliamentary report forecast that 40,000 jobs would disappear from the defence and aerospace sectors, but that the precipitous fall-off in civil aviation business and space research was mostly to blame for this.

Mr Henri Conze, procurement chief in the French defence ministry, believes the current merger talks among missile-makers may set in train a wider reorganisation in defence electronics.

Mr Conze, who runs Europe's biggest defence equipment budget, predicts that "1994 will be the year of mergers and concentrations in the European missile industry".

The most advanced of the talks is the planned joint venture between Matra and BAe, whose missile products and markets complement each other. Mr Dick Evans, BAe chairman, recently confirmed that the marriage was likely to be consummated by the end of this year.

Formal control will be split evenly between the two parent companies. However, Matra is confident of gaining management control because, even without its Taiwan order, its dowry of missile orders is larger than BAe's.

Aérospatiale acknowledges that its talks on merging its missile business with Dasa are

less advanced, and points out that the two companies took more than two years to negotiate their Eurocopter joint venture. However, the two companies have already worked together for 20 years in their joint Eurohelicopter arrangement.

In any event, the German orientation of Aérospatiale should do the company no harm with Mr Conze, who has proposed setting up a Franco-German arms agency as the possible precursor of the European arms agency, foreshadowed in the Maastricht treaty.

Might these two joint entities then merge to form one big European missile-maker? Matra, BAe, even some people at Dasa, favour that. Aérospatiale says it is open-minded at this stage. So is its owner, the French government.

"It is not impossible," says Mr Conze, "though at present it is impossible to say whether the two joint ventures would stay apart, or come together, or have some gentleman's agreement to share markets or products."

However, he believes that the imminent mergers in the actual manufacture of missiles could lead to changed relationships in other parts of the missile business.

These include "upstream" designers of entire weapons systems, such as Thomson and BAe, which are also to be found "downstream" as suppliers of missile components.

There is also French companies such as Dassault Electronique, SAT, and Sagem; German companies such as TST (part of Dasa) and BGT (part of Daimler), and British companies such as GEC-Marconi.

"Sorting out the missile-makers is the easiest part, but other areas may have to be tackled," says the French arms chief.

Having formed a joint venture with Shorts of Belfast on very short-range missiles last March, Thomson-CSF is standing aloof from the current missile merger game. Its president, Mr Alain Gomez, has a more urgent dossier on his table: the government's desire to know soon whether the defence company should be privatised or without Thomson Consumer Electronics (TCE).

The privatisation of Aérospatiale is clearly more distant. And this is not just because of deepening losses - FF180m in the first half of this year - which Mr Francois Létard, the defence minister, hopes soon to remedy with a capital increase.

Presenting the company for sale before the 1995 election would almost certainly provoke a row with President Mitterrand, who has on several occasions proclaimed his opposition to putting France's nuclear missile-maker into private hands.

## SE Banken cuts losses further

By Christopher Brown-Hume in Stockholm

THE recovery in the Swedish banking sector was underlined yesterday when Skandinaviska Enskilda Banken, the leading commercial bank, announced sharply reduced losses for the first nine months.

The bank's operating loss fell to SKr92m (\$11.2m) from SKr3.75bn as it benefited from increased revenues, cost-cutting and reduced loan losses.

The third-quarter profit of SKr20m built on the SKr10m second-quarter surplus, but was insufficient to reverse

losses of SKr608m in the first three months. The healthier trend underscored the bank's decision to withdraw its request for state aid in August and rely instead on a SKr3.2bn rights issue to rebuild its capital base.

Operating profits before credit losses rose 64 per cent to SKr7.63bn, showing successive improvements in every quarter. Lower interest rates positively influenced the performance, as did SKr566m in gains from bond sales. Costs were reduced by 2 per cent to SKr5.69bn, partly due to staff cuts.

Credit losses at SKr7.72bn

remained high, but they were down 8 per cent compared with last year. The bank said 44 per cent of write-offs related to the real estate sector, where collapsing values did more than anything to provoke the crisis in the Swedish financial sector.

Net problem loans at September 30 were SKr21.5bn, down 17 per cent from the total at the end of last year.

SE Banken also announced it had sold its remaining shares in Skandia, rounding off a saga that began in 1990 when it tried to forge a giant Scandinavian banking and insurance combine by buying a 28 per cent stake in the insurer.

## Krona's weakness helps Sandvik

By Christopher Brown-Hume

SANDVIK, the Swedish engineering group, improved profits by 23 per cent to SKr1.44bn (\$175m) in the first nine months. The advance came without any upturn in business conditions.

The revival has been attributed mainly to the weak Swedish krona, which enabled the group to push up sales by 27 per cent, to SKr15.8bn, and

orders by 30 per cent to SKr18.5bn. Sales fell 5 per cent if currency factors and acquisitions are excluded.

Mr Per-Olof Eriksson, chief executive, said demand remained "very weak" in Europe and Japan, but the outlook was more positive in other parts of the world.

He highlighted Latin America, Australia, China and south-east Asia as areas of strong growth, and noted a

"gradual increase" in North America.

The biggest expansion of sales came in North America, with 56 per cent growth to SKr3.18bn, followed by Latin America, where sales climbed 43 per cent to SKr997m.

Steel was the group's top performing division, due to a four-fold rise in profits, to SKr354m from SKr89m. This was achieved despite falling prices.

### A Pera International Report

The first in a series of reports on major business issues

## Single Market: An empty promise?

A report by Pera International, the leading European business and technology organisation, suggests that the Single Market is a non-event for most small and medium sized enterprises (SMEs).

The survey *Opportunity or Threat: The Single Market Reality for SMEs*, the first to highlight the effects of the Single Market on small companies - says that, while 29 per cent of SMEs in the UK believe that European integration has led to an increase in sales, 70 per cent say that it has made no impact and one per cent claim that it has caused an actual decrease.

This picture is by no means confined to the UK. Similar companies in Germany, France and Spain, where 63 per cent have not yet experienced any benefit, show a much sharper decrease in sales (19 per cent) and a much lower increase (18 per cent).



"Because of their capacity to adapt quickly to changes in the market place, SMEs should be well placed to take advantage of favourable alterations in the European Market and we expect them to play a significant role in the new Europe," said Ronald Armstrong, Chief Executive of Pera International.

"But for most companies, both in the UK and Europe, the Single Market can only be classed as a non-event. As SMEs account for over 90 per cent of all European companies, this is a particularly worrying finding for the future economic health of Europe as a whole," he added.

Pera International's survey, which involved questioning over 4,000 companies, including a series of face-to-face and telephone interviews, reveals that UK companies are taking a much more

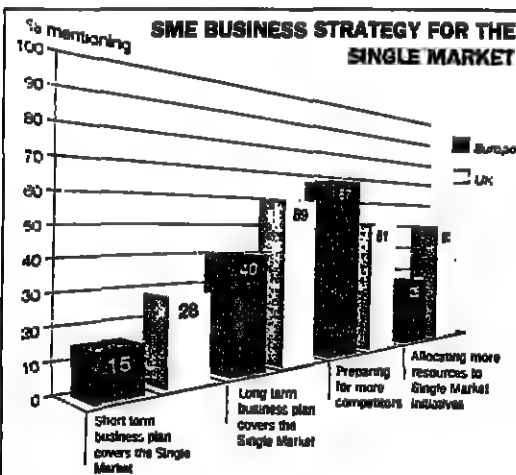
sanguine approach to the Single Market than their European competitors.

Over 70 per cent of UK respondents anticipate being able to maintain their current market position in the future and do not expect to lose position to competitors based in Europe - an attitude, says the report, which indicates "a very high level of confidence in (or perhaps naivety of) the true impact of the Single Market". European respondents showed a more measured level of expectation, perhaps based on the hard experience of the 30 per cent of respondents who have already lost market share to competitors in the run-up to the Single Market.

"Far more European SMEs than their British counterparts have export figures in their long-term plans - often with the UK as a target market. If British firms don't live up to their ideas we are going to see far more continental based competition in the UK market than vice versa," commented Ronald Armstrong.

The reasons why companies are not yet exploiting the Single Market include the recession (cited by about half the respondents throughout Europe), complacency (many UK companies claim that there is sufficient demand in the home market), increased cost of sales, marketing and distribution, and (mainly by European companies) the costs of translation.

The report says that small and medium sized companies in the UK are not as active in exporting as their European competitors, who already have a good record of trading with other local countries. SMEs in Europe are responsible for a larger share of their national exports than their UK counterparts. In the UK, less than half of SMEs consider themselves as exporters and less than 20 per cent can



truly be described as actively pursuing export business.

Nevertheless, there is awareness of the opportunities of the Single Market by all respondents, with 59 per cent of UK respondents considering Europe sufficiently important to modify their long-term plans and 28 per cent including it in their short-term plans.

Ronald Armstrong explained "A characteristic of small firms is that they do not have a surplus of management time which means long-term planning can be seen as a luxury they can't afford - particularly in times of recession. Unfortunately exporting is an activity which requires long-term planning and experience."

"Unless such companies make adequate short and long-term plans for the Single Market, they will be unable to take advantage of the opportunities clearly available," he added.

Pera International has been in existence for over forty years working with companies of all sizes. It has more experience of helping SMEs than any other organisation in Europe. Through its consulting divisions, membership and small firms consultancy schemes it has assisted over 10,000 SMEs during the last fifteen years.

For a complimentary copy of "Opportunity or Threat: The Single Market Reality for SMEs", please contact Pera International, Melton Mowbray, Leicestershire, LE13 0PB. Tel: 0664 501501 Fax: 0664 501264

## Siemens launches agreed bid for Teleco Cavi

By Haig Simonian in Milan

SHARES in Teleco Cavi, the Italian maker of power and telecommunications cables, were suspended yesterday after Siemens of Germany launched an agreed takeover bid.

Siemens is spending L104bn (\$82.5m) to buy control of GCR, the family holding company which owns just over 50 per cent of Teleco Cavi's ordinary shares.

Almost 70 per cent of GCR is owned by the founding Bruni family, which is selling its entire stake. The remainder is held by BICC, the UK industrial group, and Fornara, an

Italian industrial holding company.

Siemens will have to launch a public tender offer for the remaining Teleco Cavi stock, in line with new Italian stock exchange rules. However, the German group said it intended to maintain the company's stock-exchange listing.

Siemens said the purchase was part of a strategy to consolidate its position in the rapidly changing European cables business.

Teleco Cavi, which is based in the Abruzzo region of southern Italy, made group net profits of L256bn last year on sales of L256bn.

## Swiss travel group slides 20% at nine-month stage

By Ian Rodger in Zurich

REISEBUERO Knoch, the Swiss travel agency group, said net income tumbled 20 per cent in the first nine months of 1993 to SF35m (\$23.5m), reflecting depressed demand and prices in the travel sector. Sales were off 6 per cent to SF1.8bn.

The group, in which Knoch of Germany last year bought a 50.1 per cent stake (with 26.4 per cent of the votes), forecast that net income in the full year would fall 18 per cent to SF40m.

It described the performance as "satisfactory given market conditions".

Business was off in all regions, except the UK and Germany. In the UK, the group's biggest market outside Switzerland, sales were flat in Swiss franc terms, at SF46m, in the first nine months, reflecting near-16 per cent growth in sterling terms. German sales were up 15 per cent to SF117m.

The group, controlled by the Knoch-Hingetubler foundation, said revenue from tour operating was up 4.5 per cent, while retail business was off 4.5 per cent to SF400m.

Business travel turnover was down 3.1 per cent to SF181m.

### Grupo Financiero Mexival Banpais, S.A. de C.V.

(A Mexican Financial Group)

has acquired 51% of

### ASEMEX

### Aseguradora Mexicana, S.A.

for

## \$582,000,000

We acted as financial advisor to Grupo Financiero Mexival Banpais, S.A. de C.V.

### Bear, Stearns & Co. Inc.

New York/Atlanta/Boston/Chicago/Dallas/Los Angeles/San Francisco  
Geneva/Hong Kong/London/Paris/Shanghai/Tokyo

November 1993

The Financial Times  
plans to publish a Survey on  
**Management Buyouts**  
on Wednesday, December 8.

The FT is read by 54% of Chief Executives in Europe's largest companies.

If you want to reach this important audience, call:

**RICHARD HUGGINS**  
Tel: 071-873 3688 Fax: 071-873 3078

**FT Surveys** "The source: Chief Executives in Europe 1994"

**ARTIFICIAL INTELLIGENCE**  
FUTURES TRADING  
**"INTELLIGENT TECHNICAL SYSTEMS"**  
LEADING CONSULTANTS

Tel: 0174-564 535 Fax: 0174-564 534

The Governor and Company of the  
**BANK OF SCOTLAND**  
(Incorporated by Act of the Scottish Parliament in 1695)  
**U.S.\$250,000,000**  
**Undated Floating Rate Primary Capital Notes**

Notice is hereby given that the Rate of Interest has been fixed at 3.6875% p.a. and that the interest payable on the relevant interest Payment Date May 18, 1994 against Coupon No. 17 in respect of U.S.\$10,000 nominal of the Notes will be U.S.\$185.40 and in respect of U.S.\$250,000 nominal of the Notes will be U.S.\$4,634.78.

November 18, 1993, London  
By: Citibank, N.A. (Issuer Services), Agent Bank **CITIBANK**

**FUTURELINK**  
The fastest, most reliable, cost-effective system for FUTURES, FOREX and NEWS services available via PC or VDU terminal

LONDON — CALL HYPERION ON — PARIS  
071 572 5779 — 01 40 41 93 43

### NB POWER

which involve the construction of more than 20 reactors. At the very least Russia is likely to need World Bank help if it is to proceed.

In the Ukraine, unable and

and western nuclear engineers, Mr Remy Carle, chairman of the WANO governing board and deputy general manager of Electricite de France, told the

economy, supply of fuels and other factors over which the nuclear industry has little control.



## INTERNATIONAL COMPANIES AND FINANCE

## Hewlett-Packard shares dip in spite of strong growth

By Louise Kehoe  
in San Francisco

HEWLETT-Packard, the US electronics and computer systems company, reported strong growth in sales and earnings for its fourth quarter. But concerns about increased costs and inventories drove down the shares 32% to \$75.

Net earnings for the quarter rose to \$386m, or \$1.18 per share, compared with \$38m or 23 cents in the same period last year when the company took a restructuring charge of 36 cents per share.

Net revenue increased to \$5.7bn from \$4.3bn in the same quarter of 1992, a 32 per cent increase.

"This quarter was a big improvement over last year's

fourth quarter," said Mr Lewis Platt, HP chairman, president and chief executive. "But upward pressure on cost of sales continued, and inventory levels were higher than we'd like."

HP's cost of sales for the fourth quarter was 61.4 per cent of net revenue, against 58.1 per cent in the fourth quarter of last year. Price cuts and a continuing shift toward products carrying higher sales costs were factors, the company said.

Inventories increased 41 per cent to \$3.7bn from \$2.6bn at the end of the last fiscal year. Part of the increase was attributable to new product introductions, the company said.

Operating expenses rose 11 per cent to 30.3 per cent of net

revenue from 35.9 per cent in the year-ago quarter.

For fiscal 1993, revenue rose 24 per cent to \$20.3bn, from \$16.4bn the previous year. With revenues of \$16.6bn from computer products, service and support, HP has become the second-largest US computer company, after IBM, overtaking Digital Equipment.

Net earnings for the year were \$1.2bn, or \$4.65 per share, compared with \$59m, or \$2.18, last time after special charges. Before these charges, HP earned \$972m, or \$3.86 per share last year.

Mr Platt said the company would launch important new products in several sectors in fiscal 1994 and efforts to reduce expense structures would remain a high priority.

## Net return edges ahead at Maple Leaf Foods

By Bernard Simon in Toronto

MAPLE Leaf Foods, the Toronto-based food processor controlled by the UK's Hill-down Holdings, reported a small rise in third-quarter earnings, with improved agribusiness and baking results offsetting slimmer margins from processed foods.

Net earnings climbed to C\$20.8m (US\$15.8m), or 26 cents a share, from C\$19.4m, or 24 cents, last year.

Mr Brent Ballantyne, named yesterday as president and CEO, predicted that fourth-quarter earnings would also exceed a year earlier.

Maple Leaf said the cost-cutting and rationalisation in its feed, poultry and rendering operations have paid off in sharply higher earnings.

But earnings from processed foods were hit by higher raw material costs and a move by consumers to cheaper products.

The company said it aims to improve performance by launching new products and cutting costs, giving greater attention to private labels, and by further inroads into the US market.

## EDS in multimedia joint venture

By Andrew Adonis

EDS, the computer services subsidiary of General Motors, yesterday announced a joint venture with France Telecom and US West, the US regional Bell operator, to provide interactive financial transaction services to the home and business markets.

The joint venture, called Interactive Transaction Partners, marks a further advance in the multimedia ambitions of EDS and the telecoms groups.

EDS, which will provide the processing, has taken a 50 per

cent stake in the joint venture. France Telecom and US West, which have developed the applications software, each have a 25 per cent stake. The investment plans of ITP are undisclosed.

ITP will offer integrated home banking, bill payment and bill presentation services. It will be accessed by phone or personal computer with modem, with the potential for interactive television and screen phones as they enter the market.

Mr Neil Marcous, manager of EDS's Electronic Commerce Division, said the joint venture

was a further step on the "information superhighway, integrating more kinds of consumer-oriented relationships".

Services will be available in the US from next April, and may be extended to Europe.

The three partners are leaders in the drive to produce multimedia services. Earlier this year British Telecommunications engaged in unsuccessful negotiations to buy EDS, which has operations in more than 30 countries.

US West, which serves the Rocky Mountain states and Pacific Northwest, earlier this

year made a \$2.5bn investment in the cable entertainment operations of Time Warner, the second largest cable operator in the US and a leading producer of filmed entertainment. With its Minitel project, France Telecom is one of the most pioneering of Europe's public telecommunications operators in the provision of inter-active services.

Mr Francois Olibet, president of France Telecom Intermat, said that "seamless multimedia services" like home banking would be the key to future success in the telecoms market.

## Thomson third quarter quiet

By Bernard Simon in Toronto

THOMSON Corporation, the Canadian-controlled travel and publishing group, blamed adverse exchange rates and competitive pressures in several of its key publishing businesses for near-stagnant third-quarter earnings.

Net earnings edged up to US\$226m, before preferred share dividends, or 39 cents per common share, from \$221m, or 38 cents a year earlier. Sales dipped to \$1.96bn from \$1.94bn.

If exchange rates had remained unchanged from average 1992 levels, earnings would have been 44 cents per share in the latest period, and sales \$2.12bn.

Nine-month earnings rose to \$349m, or 42 cents a share,

from \$344m, or 41 cents.

The brightest spot so far this year has been the travel business. Although UK-based Thomson Travel's nine-month operating profit dipped to \$149m from \$146m, the company said that there was an 18.6 per cent jump measured in pounds sterling.

Thomson Tours' volumes rose by 11 per cent last summer, and sales of winter holidays are 18 per cent ahead of last year.

The company said summer 1994 bookings have been "exceptionally high" since its brochures were launched in late August, leading to a "significant" improvement in market share.

An official ascribed the improvement to a stronger UK

economy and last summer's poor weather, which has encouraged many people to book a holiday in the sun for next year.

In the publishing and newspaper divisions, poor performances have been posted by the UK and US professional, business and academic publishing groups, as well as by Thomson's Canadian newspaper chain. In particular, business information publishing in the US was hit by lower pharmaceutical advertising.

But UK regional newspapers' operating profits were substantially ahead of last year, partly due to a gradual improvement in advertising, and partly to the sale earlier this year of Thomson's loss-making free-sheet papers.

## Vard ferry group pre-losses up after 9 months

VARD, the troubled Norwegian cruise and ferry group, saw nine-month pre-tax losses widen substantially to Nkr149.9m (\$17.8m) from Nkr3.23m in the same period last year, writes Karen Fosell in Oslo.

The deterioration is due largely to higher operating and interest expenses, foreign currency losses on debt, and an extraordinary charge of Nkr99.9m.

Group revenue rose to Nkr6.46bn from Nkr4.11bn and operating profits advanced slightly to Nkr478.6m from Nkr437.9m, as interest income increased to Nkr12.37m from Nkr6.47m. Interest expenses, however, rose to Nkr500.8m from Nkr330.22m last year.

Vard said its Klostet Cruise subsidiary was being restructured, the results of which would take some time to be reflected in the company's accounts.

## Philip Morris shares hit by warning of cost cuts

By Frank McGurty in New York

SHARES in Philip Morris fell yesterday morning after the US tobacco and food products group revealed it might take a fourth-quarter charge against earnings.

In a filing with the US Securities and Exchange Commission, Philip Morris, the world's largest cigarette-maker, said it would present several options for cutting costs in its tobacco and food operations at a board meeting next Wednesday.

The stock shed 8 1/4 to 55 1/2 in early trading after Merrill Lynch downgraded its rating on the issue.

The SEC filing, however, was not unexpected.

Revenues from its US tobacco operations have fallen sharply since April, when the company slashed cigarette prices by 40 cents a pack as part of a strategy to stem a declining market share for Marlboro and other premium

brands. In the third quarter, net income was down 26 per cent from the 1992 level.

In October, the group warned that lower cigarette pricing and the market's continued volatility would "make fourth-quarter earnings comparison unfavourable".

Mr Ron Morrow, an analyst with Smith Barney Shearson, the New York securities house, said he "would not be surprised" if the cost-cutting measures under consideration included redundancies and plant closures. He estimated the charge at about \$100m.

In the final quarter of 1992, the group posted net income of \$1.9bn, or \$1.34.

Last week, Philip Morris said it would raise wholesale cigarette prices by four cents a pack, matching an increase by RJR Nabisco and other cigarette manufacturers.

Analysts responded to the move by upgrading their estimates of 1994 earnings.

## GM outlines plan for return to profit

By Richard Waters

MR JOHN SMITH, General Motors' chief executive and president, outlined plans to return the carmaker's troubled North American operations to an after-tax profit in 1994.

It aims to increase US sales, taking the group's market share to 33-34 per cent from around 31 per cent, and further cut costs.

Contributing to the turn-

round this year have been a \$2bn cut in the cost of materials and a 12 per cent reduction in assembly time to 24-26 hours. Also, 1993 US sales are expected to reach 14.1 vehicles, up 7 per cent from last year.

In its last quarter, GM's North American operations made a net loss of \$1.12bn, after plant closure costs and other items which resulted in a net charge of \$280m.

The company is planning a 5

per cent increase in vehicle sales in the US in 1994, to 14.8m. Even if this target is not met, Mr Smith said GM should make the planned return to net profitability in North America.

Mr Gerald Knechtel, head of North American operations, said next year's targets are not based on further job cuts. The sale of various units and normal attrition would push staff levels down to around 245,000 next year, he said.

All of these securities having been sold, this announcement appears as a matter of record only.

November 1993

9,200,000 Shares



Common Stock

1,600,000 Shares

PaineWebber International

CS First Boston

Kidder, Peabody International  
Limited

BNP Capital Markets Limited

Deutsche Bank

Goldman Sachs International Limited

Nomura International

Salomon Brothers International Limited

S.G. Warburg Securities

This tranche was offered outside the United States and Canada.

7,600,000 Shares

PaineWebber Incorporated

CS First Boston

Kidder, Peabody & Co.  
Incorporated

Bear, Stearns &amp; Co. Inc.

BT Securities Corporation

Donaldson, Lufkin &amp; Jenrette

A.G. Edwards &amp; Sons, Inc.

Goldman, Sachs &amp; Co.

Hambrecht &amp; Quist

Oppenheimer &amp; Co., Inc.

Prudential Securities Incorporated

Salomon Brothers Inc

Smith Barney Shearson Inc.

UBS Securities Inc.

Wertheim Schroder &amp; Co.

Dean Witter Reynolds Inc.

Advest, Inc.

Robert W. Baird &amp; Co.

J. C. Bradford &amp; Co.

Cowen &amp; Company

Dain Bosworth

Furman Selz

Gruntal &amp; Co., Incorporated

Janney Montgomery Scott Inc.

Ladenburg, Thalmann &amp; Co. Inc.

Neuberger &amp; Berman

Piper Jaffray Inc.

The Principal/Eppler, Guerin &amp; Turner, Inc.

Rauscher Pierce Refsnes, Inc.

The Robinson-Humphrey Company, Inc.

Sutro &amp; Co. Incorporated

Tucker Anthony

Brean Murray, Foster Securities Inc.

The Chapman Company

Crowell, Weedon &amp; Co.

Doley Securities, Inc.

First Equity Corporation

First Manhattan Co.

C.L. King &amp; Associates, Inc.

Moors &amp; Cabot, Inc.

Pennsylvania Merchant Group Ltd

Pryor, McClendon, Counts &amp; Co., Inc.

Ragen MacKenzie

Roney &amp; Co.

The Seidler Companies

This tranche was offered in the United States and Canada.

This announcement appears as a matter of record only.



Reverse Floater Warrants issue  
based on MIBOR  
ESP 20.000.000.000

Lead Manager

ABASESORES 

Placing Agents

AB Aseores  
Banco de Sabadell

November 1993



## INTERNATIONAL COMPANIES AND FINANCE

## Brambles warns of 10% downturn

By Nikid Tait in Sydney

BRAMBLES, the Australian transportation, waste management and equipment services group, warned yesterday that profits in the current year could be up to 10 per cent lower than in 1992/93. This would be a second successive year of falling profits; in the 12 months to end-June, after-tax earnings dipped from A\$180m (US\$118m) to A\$166m.

The warning was provided by the company's chairman, Mr Gary Pemberton, who told Brambles' annual meeting that current trading projections "indicate that there is virtually no upside on last year, but a downside containing within ten per cent."

"We must accept that the maintenance of full-year profitability at the 1992/93 level is at some risk," he added.

Mr Pemberton said the sudden change in the US hazardous waste market and the downturn in European economies were the two major factors dominating Brambles' short-term outlook.

"Given the realities of the current situation in Europe and the US, profit forecasting is difficult, particularly this year when we are anticipating an uneven half to half result with a number of factors pointing towards a stronger second half," he commented.

He noted there had been some UK improvement, Germany was "showing signs of levelling out", but France remained "under pressure".

## Rocketdyne cuts up to 1,000 jobs

ROCKWELL International's Rocketdyne division is to cut its workforce by up to 1,000 people, or about 18 per cent, over the next year, Rauter reports.

The US rocket engine producer, which does most of its business with NASA, said the move reflects a reduction in funding for space programmes. Rocketdyne employs about 6,800 workers.

## Falling demand and strong yen hit Casio Computer

By Michio Nakamoto in Tokyo

CASIO Computer, the leading maker of digital watches and electronic calculators, yesterday reported a plunge in pre-tax profit as it suffered the impact of the sharp economic downturn in Japan and the rapid rise of the yen.

Casio suffered a 67 per cent fall in pre-tax profits to Y2.8bn (\$26.16m) on sales that were 7 per cent down to Y159bn. Operating profits plummeted 82 per cent to Y1.3bn.

The company blamed the severe drop in private capital spending and personal consumption as well as the devastating impact of the yen's rapid rise for the deterioration in its business performance.

Casio is revising its forecast

for consolidated sales and profits in the full business year due to the sharp rise of the yen and continuing weakness in major economies. It now forecasts sales of Y415bn rather than Y450bn as predicted in May and pre-tax profits of Y11bn, rather than Y14.5bn.

For the parent company, Casio forecasts sales of Y390bn and pre-tax profits of Y9.3bn.

The company was particularly hard hit by falling overseas demand, particularly in Europe.

Calculator sales were modestly up on the same period last year but electronic clocks and watches, electronic musical instruments and electronic office equipment all suffered a setback.

## Cost-cutting drive puts Daihatsu back in black

By Eniko Terazono

DAIHATSU Motor, the Japanese carmaker belonging to the Toyota Motor group, returned to the black during the first six months to September, due to cost-cutting efforts, including the reduction of seasonal workers.

The company posted pre-tax profits of Y551m (\$5.15m) against an interim loss of Y4.9bn a year earlier. Operating profits totalled Y649m, up from a loss of Y4.3bn, while after-tax profits totalled Y536m against a loss of Y4.9bn. Half-year sales, however, fell 7.3 per cent to Y382.8bn.

Daihatsu said it lost Y7.2bn in profits through foreign

exchange losses and the fall in sales, but managed to generate profits of Y12.1bn by cutting 1,000 seasonal employees.

Vehicle sales during the April to September term fell 6 per cent to 383,067 units. Domestic sales fell 8.3 per cent, while exports rose 5.1 per cent. Domestic sales fell in all vehicle categories, with sales of agricultural machinery especially weak due to cold summer weather and typhoons.

For the full year to March, Daihatsu expects sales to fall 8.3 per cent to Y720bn. Pre-tax profits of Y2bn are expected against a loss of Y4.4bn, while after-tax profits are forecast at Y2bn, up from a loss of Y3.5bn last year.

## Newbridge in fourfold leap

NEWBRIDGE Networks, the Ottawa-based specialised telecommunications equipment maker, has reported a fourfold profit increase for the first half ended October 30, writes Robert Gibbons in Montreal.

First-half profit was C\$88.1m (US\$83.30m), or 87 cents a

share, up from C\$16.8m, or 24 cents, a share a year earlier, on revenues of C\$243m against C\$23.5m.

Second-quarter profit was C\$37.1m or 47 cents a share against C\$10.8m or 15 cents a share on revenues of C\$128m against C\$87.4m.

## TPC puts block on new sugar venture

By Nikid Tait

PLANS by CSR, the Australian sugar and building products group, to form a major sugar industry joint venture with the Mackay Sugar Co-Operative Association and London-based trading house E.D. & F. Man, have run into opposition from the Australian Sugar Producers' Commission.

The joint venture was announced in August, when CSR said it would join with Mackay Refined Sugars - a joint arrangement between Man and MSCA - to form a white sugar production, marketing and distribution operation. CSR was to hold 50 per cent of the company, with MSCA and Man each taking 25 per cent. CSR would have contributed refinery assets in Perth, Melbourne and Auckland, while Mackay would have supplied its new low-cost refinery, being built in Queensland, along with bulk storage facilities.

The partners claimed that the venture would create a refined sugar export industry in Australia, which has traditionally exported raw sugar only. Annual turnover of the joint venture company was forecast at A\$600m (US\$377m).

Yesterday, however, the TPC claimed that the proposal would substantially lessen competition in the refined sugar industry and push up prices for sugar and products containing it.

The TPC said that the companies were pooling refining capacity which would have given them a joint market share of over 80 per cent and that "having combined the assets, the companies would not compete".

It suggested that CSR was insulating itself from competition which would otherwise have been generated by a new Mackay refinery, and said that the proposed export benefits had been overstated. The TPC also rejected the argument that imports would be an effective constraint on prices, given high freight and handling costs.

## Aoki holds talks on hotels sell-off

By Michio Nakamoto

AOKI, a medium-sized Japanese construction company which owns the Westin Hotels chain, said that it was in discussion with a number of parties with the aim of selling its Westin interests in North America.

The companies being put up for sale include the operating company of the Westin Hotels chain in North America and the North American hotels.

Sale of those businesses would in effect end Aoki's hotel business in the US, which makes up about two-thirds of the company's hotel interests.

Aoki plans to use the funds it raises through the sale of most of its stock in the Westin Hotels chain and the North American operating company based in Seattle to reduce its debt burden, which totalled over Y300bn (\$2.8bn) at the end of March this year.

It hopes to be able to conclude a deal as early as before the end of the year.

The construction company also plans to sell its holding in Westin International Europe, the operating company based in Hamburg, Germany, which runs some of its North American hotels and hotels in Europe, if conditions are suitable.

Aoki acquired the Westin Hotels and Resorts chains jointly with a US company in 1988 for \$1.35bn of which the

Japanese group paid Y1.1bn. The company is not revealing what kind of price it is looking for the hotels.

Aoki has extensive operations outside of Japan and operates hotels in Brazil, Panama, Taiwan and Shanghai as well as the US and Germany.

With the business downturn in the west, however, the company is looking to concentrate its energies on the growing Asian market.

## JR East blames sluggish railway operations for pre-tax downturn

By Eniko Terazono in Tokyo

EAST JAPAN Railway, the semi-private regional railway group, said sluggish railway operations due to the economic slump caused a marginal fall in interim pre-tax profits.

The earnings announcement, JR East's first since its listing on the Tokyo stock exchange last month, reflected rising operating costs amid lower revenues. Pre-tax profits for the first six months to September fell 1.3 per cent to Y74.5bn (\$697.85m) while overall revenue fell 0.8 per cent to Y995.2bn. After-tax profits fell 6.5 per cent to Y38.1bn.

The company has not benefited from its stock flotation since the proceeds have gone to JNR Settlement, which holds debts and shares of seven regional companies created in 1987 through the break-up of national operator, Japan National Railways.

JR East's half-year revenue from its railway operations eased 0.7 per cent to Y844.5bn, while operating profits fell 3.3 per cent to Y281.7bn. Revenue from its other businesses including real estate leasing and retailing operations, rose 2.1 per cent to Y40.3bn, although operating profits fell 28.7 per cent to Y3bn.

For the full year to March, the company expects a 0.2 per cent rise in pre-tax profits to Y101.2bn on a 0.6 per cent fall in overall revenue to Y1,988.2bn.

Meanwhile, securities industry officials yesterday expressed worries over further

flotation of state-owned companies following the recent decline in share prices believed to have been triggered by the JR East flotation.

The Japanese government wants to float Japan Tobacco, a state-owned tobacco and salt company by the end of next March, and the remaining seven railway groups next fiscal year. Mr Masaru Aratani, chairman of Japan Securities Dealers Association, said that he was cautious over the impact of listing large-capital state-owned companies.

Mr Aratani said the JR East listing came at a bad time for the sluggish stock market. His comments counter those of Mr Minoru Nagasaki, Tokyo stock market president, who has denied claims the market's decline was caused by JR East.

## NEWS DIGEST

## SAB buys 80% of Hungary's largest brewer

SOUTH AFRICAN Breweries, the country's largest consumer goods company, yesterday announced that it was paying \$60m for an 80 per cent stake in Kobanyai Sörgyár, Hungary's largest brewery, writes Nicholas Denton in Budapest.

SAB is also committed to investments of \$40m over four to five years at the state-owned Kobanyai Sörgyár.

Kobanyai's capacity will be increased to 2.5m to 3m hectolitres of beer per year, with particular emphasis on the brewery's Dreher brand. The

State Property Agency, the privatisation authority, named SAB as preferred bidder in June this year.

## Holden marks resurgence

HOLDEN, the Australian subsidiary of General Motors of the US, said its net profit jumped to A\$61.8m (\$40.3m) in the year to June 30 from A\$36.9m in 1991-92, Rauter reports from Melbourne.

Holden said the 67 per cent rise in net followed a 19 per cent rise in revenue to A\$1.95bn. It said a resurgence in the six-cylinder car market and a continuing focus on efficiency and productivity targets helped the company to boost profits.

## Koito lists dimmer pre-tax results

KOITO, a leading Japanese maker of automobile lighting equipment, reported interim pre-tax profit 8.1 per cent lower at Y1.94bn (\$18.13m), compared with Y2.06bn a year ago, AP-DJ reports from Tokyo.

Net profit was 8.5 per cent lower at Y86m.

## Cement in profit

ST LAWRENCE Cement, eastern Canada's biggest cement producer, reported net profits of C\$3.8m (\$3.01m), or 6 cents a share, in the third quarter, compared with a loss of C\$2m, or 5 cents, a year ago, writes Robert Gibbons.

## Kraft buys Bulgarian chocolate

By Theodor Troev in Sofia

KRAFT Jacobs Suchard, the Swiss foods group which is part of Philip Morris of the US, is buying 80 per cent of Republika, Bulgaria's leading chocolate producer. The remaining 20 per cent will be offered to employees. The total investment for purchasing and modernising Republika will amount to \$18m over the next five years.

This is one of the first successful large privatisation deals in Bulgaria involving a western partner.

Mr Bernhard Hubert, the vice-president of Kraft Jacobs Suchard responsible for central and eastern Europe, said the acquisition was an important step in the east European strategy of the company.

Kraft Jacobs Suchard, which employs 32,000 people in 20 European countries, is expected to have operating revenues of \$9bn in 1993. Since last year, it has positioned itself in eastern Europe through the acquisitions of confectionery, wafer and coffee producers in Hungary, Slovakia, the Czech Republic, Poland and Lithuania.

In Bulgaria, the company will continue to market Republika's local products and will also introduce some of its brands, such as Milka tablets and Prince Polo wafers.

Republika, the country's oldest confectionery manufacturer, was founded in 1905. Last year, it produced over 8,000 tonnes of confectionery. Its output satisfied up to 35 per cent of the Bulgarian market.



## Golden Hope Plantations Berhad

(Incorporated in Malaysia)

Directors:  
Tan Sri Abdul Halim bin Mohamed Ali (Chairman)  
Dato' Abdul Kader bin Mohamed Ali  
Dato' Azhar bin Mohamed Ali  
Mohamed bin Abdul Halim  
Husein bin Mohamed Ali  
Dr. Ng Chong Kien  
Abdul Rahman bin Ramli

To the Members,

## INTERIM REPORT FOR THE SIX MONTHS TO 30TH SEPTEMBER, 1993

The Directors announce that the unaudited results for the six months to 30th September, 1993 were:-

	1993	1992	%	1993	1992	%
Turnover	322,635	285,076	13	44,364	37,119	19
Investment and other income	4,854	2,401	69	5,843	4,196	20
Operating profit	54,439	43,328	26	16,953	6,489	161
Associated Companies	3,556	4,806	(26)	-	-	-
Profit before taxation (See Note 1)	57,995	48,134	20	16,953	6,489	161
Taxation (See Note 2)	17,472	15,035	(16)	1,692	918	(84)
Profit after taxation but before extraordinary items	40,523	33,099	22	15,261	5,571	174
Minority interests	2,982	2,060	(45)	-	-	-
Profit after taxation and minority interests	37,541	31,039	21	15,261	5,571	174
Extraordinary items (See Note 3)	23,508	2,828	-	-	-	-
Profit attributable to shareholders	61,049	33,867	80	15,261	5,571	174

	1993	1992	%	1993	1992	%
(1) After charging						
- Interest	2,132	3,644	-	332	1,725	-
- Depreciation	13,890	13,805	-	2,980	3,032	-
(2) Taxation includes						
- Current	18,066	16,846	-	1,692	918	-
- Deferred	(608)	(1,811)	-	-	-	-
- Associated Companies	14	-	-	-	-	-
(3) The extraordinary items comprise						
Surplus on disposal of properties	21,569	2,828	-	-	-	-
Surplus on disposal of investments	1,639	-	-	-	-	-
	23,508	2,828	-	-	-	-

	1993	1992	%	1993	1992	%
Profit after taxation but before extraordinary items as a percentage of turnover	12.4%	11.7%		12.4%	11.7%	
Profit after taxation and minority interests but before extraordinary items as a percentage of shareholders' funds	1.8%	1.7%		1.8%	1.7%	
Net earnings per share (in sen)	3.8	3.7		3.8	3.7	
Net tangible asset backing per share	RM2.16	RM2.21		RM2.16	RM2.21	

The net earnings per share and net tangible asset backing per share are calculated based on the enlarged share capital of 986,979,499 (1992: 845,982,428) shares in issue following the completion of the rights issue of 1 for 6 in November, 1992.

(5) The Company has changed its financial year end from 31st March to 30th June and will therefore be preparing fifteen months accounts to 30th June, 1994.

The increase in profit is mainly attributable to higher sales volume of palm products and better prices of rubber together with improved performance of property development. The Group profit is expected to be higher in the next nine months of the financial period ending 30th June, 1994 due to expected higher contribution from plantations and property development.

## HARVESTED CROPS - tonnes

	1993	1992
FFB	775,792	646,742
Palm Oil	150,439	128,162
Palm Kernel	44,836	36,202
Rubber	15,689	17,724
Cocoa	3,518	3,689
Copra	3,151	3,687

## COPIES OF THE COMPANY'S INTERIM REPORT

A copy of the Company's Interim Report will be posted to shareholders on 22nd November, 1993. Copies will also be available from the Company's registered office and the Branch Registrar, Barclays Registrars, Bourne House, 34, Beckett Road, Kent BA3 4TU, United Kingdom.

KUALA LUMPUR  
17th November, 1993

By Order of the Board  
Norlita Abdul Samad  
Secretary

## SOCIETE GENERALE

FRF 500,000,000

SUBORDINATED

FLOATING RATE

NOTES DUE 2001

In accordance with the Terms and Conditions of the Notes, notice is hereby given that the Interest Payment Dates in 1994 in respect of the subject Notes shall be as follows:

March 15, 1994  
June 15, 1994  
September 21, 1994  
December 21, 1994

The Principal Paying Agent  
SOCIETE GENERALE  
GROUP  
15, avenue Emile Reuter  
LUXEMBOURG

## COMPAGNIE BANCAIRE

COMPAGNIE BANCAIRE

FRF 800,000,000

SUBORDINATED

FLOATING RATE

NOTES DUE 1997

In accordance with the Terms and Conditions of the Notes, notice is hereby given that the Interest Payment Dates in 1994 in respect of the subject Notes shall be as follows:

March 15, 1994  
June 15, 1994  
September 21, 1994  
December 21, 1994

The Principal Paying Agent  
SOCIETE GENERALE  
GROUP  
15, avenue Emile Reuter  
LUXEMBOURG

## Sunimono Chemical

Sunimono Chemical

U.S. \$20,000,000

Floating Rate Notes

Due 1994

Interest Rate: 8% per annum  
Interest Period: From 15th November, 1993 to 15th May, 1994  
Interest Amount: 160,000,000 U.S. Dollars  
The Securities Trust & Banking Co., Ltd.  
Agent Bank

## BANK OF QUEENSLAND LIMITED

BANK OF QUEENSLAND LIMITED

U.S. \$125,000,000

Multiple Option Facility

AGREEMENT

DATED SEPTEMBER 22, 1992

In accordance with the provision of the Transferable Loan Certificate issued on November 18, 1992, notice is hereby given that for the six month interest period from November 17, 1993 to May 17, 1994, the Certificate will carry an interest rate of 4.025% per annum.

Bankers Bank PLC, Hong Kong  
Agent Bank

## CONTRACTS &amp; TENDERS

## CRUDE OIL PROCESSING IN ROMANIA



## GENERAL NOTICE

RAFFIROM S.A. - The Petroleum Holding Group of Companies representing the Romanian Refining Industry is going to organize an international competitive bidding for processing about 70,000 tonnes of crude oil per month during 1994 in its refineries, based on most competitive yield.

This quantity is the only spare refining capacity throughout 1994 for third parties.

International oil companies interested in participating in this competitive bidding are invited to register their interest not later than the 6th of December 1993 by writing to:

## PETROLEXPORTRIMPORT S.A.

1-3 Maghera Blvd.

Bucharest, Romania

Phone (40-1) 613.30.45

Fax (40-1) 615.65.50

Telex 11519 Petex R

Cable: Petrolexporthrom S.A.

The crude oil grades, the yields per each crude oil grade, the bidding documents and the qualification conditions can be obtained from PETROLEXPORTRIMPORT S.A. - member of RAFFIROM S.A.

## LEGAL NOTICES

No. 69922 of 1993  
In the High Court of Justice  
Chancery Division  
Mr Registrar Buckley

IN THE MATTER OF  
MUNICIPAL MUTUAL INSURANCE LIMITED  
and  
IN THE MATTER OF  
THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that by an Order dated 26 November, 1993 made in the above matter the Court has directed that a meeting for the purpose of considering and, if thought fit, sanctioning the "Scheme" as to each of which both (a) as to the date of the meeting and (b) as to the date of the meeting shall be as follows:

(1) the aggregate amount of Scheme Liabilities due to each creditor which have become due and payable by the Company on its liability accounts £50,000; and

(2) the aggregate amount of Scheme Liabilities due to each creditor which have become due and payable by the Company on its liability accounts £50,000; and

(3) each creditor shall be entitled to attend and vote at the meeting on the basis of the number of Scheme Liabilities due to each creditor which have become due and payable by the Company on its liability accounts £50,000; and

(4) the meeting shall be held at the offices of the underwritten solicitors at the address below during usual business hours on any day (other than a Saturday, Sunday or public holiday) prior to the day appointed for the said meeting. Creditors entitled to attend and vote at the meeting may vote in person at the meeting or they may appoint another person, whether a creditor or not, as their proxy to attend and vote in their place.

It is required that the Form of Proxy contained in the Voting and Proxy Form should be lodged with The Company Secretary, Municipal Mutual Insurance Limited, 22 Old Queen Street, Westminster, London SW1H 9BW on or before 11.00 am on the day of the meeting. 1993 but if a Form of Proxy is not so lodged it may be treated as a valid proxy.

By the said Order, the Court has appointed Sir John Lloyd or, failing him, Philip Gregory or failing him, Nicholas Denton as the Chairman of the meeting and has directed the Chairman to report the result thereof to the Court.

DATED 15th November, 1993  
Singer and May (Ref: RLH)  
25 Abchurch Lane  
London EC4N 3DB  
Solicitors to the Company

This announcement appears as a matter of record only.

17,666,586 Certificates of Shares

INTERNATIONALE NEDERLANDEN GROEP N.V.

have been sold by  
THE STATE OF THE NETHERLANDS  
to  
Pension Fund PGGM

Advisor of the transaction:

ING INVESTMENT BANK

October 1993

## FINANCIAL TIMES

## THE WEST EUROPEAN BUSINESS TRAVEL MARKET 1993-97

BY KEVIN O'BRIEN

## MANAGEMENT REPORTS

- A new report from The Financial Times.

For further information and a brochure

Please contact: Sarah Owen,

Financial Times Management Reports

102-108 Clerkenwell Rd London EC1M 6SA

Tel: (+44 71) 814 9770 Fax: (+44 71) 814 9778

THE INFORMATION YOU PROVIDE WILL BE HELD BY US AND MAY BE USED BY OTHER SELECT QUALITY COMPANIES FOR MARKETING LIST PURPOSES.

FT Business Grouping Ltd, Registered Office: Number One Southwark Bridge, London SE1 9LH, England, Registered No: 000088, VAT Registration No: GB 270 571 571

US\$250,000,000

Floating Rate Subordinated Capital Notes due August 1996

## CITICORP

Notice is hereby given that the interest payable on the relevant Interest Payment Date November 23, 1993 for the period August 14, 1993 to November 14, 1993 against Coupon No. 37 in respect of U.S.\$50,000 nominal of the Notes will be U.S.\$670.84.

November 18, 1993, London  
By: Citibank, N.A. (Issuer Services), Agent Bank CITIBANK

Handwritten signature and date: 15/11/93



## Notice of Mandatory U.S. \$20,000,000 Redemption

out of:

U.S. \$100,000,000

Lloyds Eurofinance N.V.

1 1/2 per cent. Guaranteed Bonds due 1994

Unconditionally and irrevocably guaranteed on a subordinated basis by

Lloyds  
Bank

NOTICE IS HEREBY GIVEN that pursuant to Condition 8(a) of the Bonds, U.S. \$20,000,000 principal amount of the Bonds has been drawn for redemption at their principal amount.

Payments of principal will be made in accordance with Condition 5 of the Terms and Conditions of the Bonds on or after 30th December, 1993 at the specified office of any of the Paying Agents who are listed in the Terms and Conditions of the Bonds, against surrender of the Bonds with all unmatured Coupons attached, failing which the face value of any missing unmatured Coupon will be

deducted from the payment. Any amounts of principal so deducted will be paid against surrender of the relevant missing Coupon within a period of six years from the date mentioned on the Coupon. Accrued interest due 30th December, 1993 will be paid in the normal manner against presentation and surrender of Coupon No. 11 on or after 30th December, 1993. Interest on the Bonds drawn for redemption will cease to accrue from 30th December, 1993.

Serial numbers of the U.S. \$1,000 denomination Bonds drawn are as follows:-

11 880 1841 1872 2846 3818 3870 4810 5843 6888 7894 8881 9881 10881 11881 12881 13881 14881 15881 16881 17881 18881 19881 20881 21881 22881 23881 24881 25881 26881 27881 28881 29881 30881 31881 32881 33881 34881 35881 36881 37881 38881 39881 40881 41881 42881 43881 44881 45881 46881 47881 48881 49881 50881 51881 52881 53881 54881 55881 56881 57881 58881 59881 60881 61881 62881 63881 64881 65881 66881 67881 68881 69881 70881 71881 72881 73881 74881 75881 76881 77881 78881 79881 80881 81881 82881 83881 84881 85881 86881 87881 88881 89881 90881 91881 92881 93881 94881 95881 96881 97881 98881 99881 100881 101881 102881 103881 104881 105881 106881 107881 10881 109881 110881 111881 112881 113881 114881 115881 116881 117881 11881 119881 120881 121881 122881 123881 124881 125881 126881 127881 12881 129881 130881 131881 132881 133881 134881 135881 136881 137881 13881 139881 140881 141881 142881 143881 144881 145881 146881 147881 14881 149881 150881 151881 152881 153881 154881 155881 156881 157881 15881 159881 160881 161881 162881 163881 164881 165881 166881 167881 16881 169881 170881 171881 172881 173881 174881 175881 176881 177881 17881 179881 180881 181881 182881 183881 184881 185881 186881 187881 18881 189881 190881 191881 192881 193881 194881 195881 196881 197881 19881 199881 200881 201881 202881 203881 204881 205881 206881 207881 20881 209881 210881 211881 212881 213881 214881 215881 216881 217881 21881 219881 220881 221881 222881 223881 224881 225881 226881 227881 22881 229881 230881 231881 232881 233881 234881 235881 236881 237881 23881 239881 240881 241881 242881 243881 244881 245881 246881 247881 24881 249881 250881 251881 252881 253881 254881 255881 256881 257881 25881 259881 260881 261881 262881 263881 264881 265881 266881 267881 26881 269881 270881 271881 272881 273881 274881 275881 276881 277881 27881 279881 280881 281881 282881 283881 284881 285881 286881 287881 28881 289881 290881 291881 292881 293881 294881 295881 296881 297881 29881 299881 300881 301881 302881 303881 304881 305881 306881 307881 30881 309881 310881 311881 312881 313881 314881 315881 316881 317881 31881 319881 320881 321881 322881 323881 324881 325881 326881 327881 32881 329881 330881 331881 332881 333881 334881 335881 336881 337881 33881 339881 340881 341881 342881 343881 344881 345881 346881 347881 34881 349881 350881 351881 352881 353881 354881 355881 356881 357881 35881 359881 360881 361881 362881 363881 364881 365881 366881 367881 36881 369881 370881 371881 372881 373881 374881 375881 376881 377881 37881 379881 380881 381881 382881 383881 384881 385881 386881 387881 38881 389881 390881 391881 392881 393881 394881 395881 396881 397881 39881 399881 400881 401881 402881 403881 404881 405881 406881 407881 40881 409881 410881 411881 412881 413881 414881 415881 416881 417881 41881 419881 420881 421881 422881 423881 424881 425881 426881 427881 42881 429881 430881 431881 432881 433881 434881 435881 436881 437881 43881 439881 440881 441881 442881 443881 444881 445881 446881 447881 44881 449881 450881 451881 452881 453881 454881 455881 456881 457881 45881 459881 460881 461881 462881 463881 464881 465881 466881 467881 46881 469881 470881 471881 472881 473881 474881 475881 476881 477881 47881 479881 480881 481881 482881 483881 484881 485881 486881 487881 48881 489881 490881 491881 492881 493881 494881 495881 496881 497881 49881 499881 500881 501881 502881 503881 504881 505881 506881 507881 50881 509881 510881 511881 512881 513881 514881 515881 516881 517881 51881 519881 520881 521881 522881 523881 524881 525881 526881 527881 52881 529881 530881 531881 532881 533881 534881 535881 536881 537881 53881 539881 540881 541881 542881 543881 544881 545881 546881 547881 54881 549881 550881 551881 552881 553881 554881 555881 556881 557881 55881 559881 560881 561881 562881 563881 564881 565881 566881 567881 56881 569881 570881 571881 572881 573881 574881 575881 576881 577881 57881 579881 580881 581881 582881 583881 584881 585881 586881 587881 58881 589881 590881 591881 592881 593881 594881 595881 596881 597881 59881 599881 600881 601881 602881 603881 604881 605881 606881 607881 60881 609881 610881 611881 612881 613881 614881 615881 616881 617881 61881 619881 620881 621881 622881 623881 624881 625881 626881 627881 62881 629881 630881 631881 632881 633881 634881 635881 636881 637881 63881 639881 640881 641881 642881 643881 644881 645881 646881 647881 64881 649881 650881 651881 652881 653881 654881 655881 656881 657881 65881 659881 660881 661881 662881 663881 664881 665881 666881 667881 66881 669881 670881 671881 672881 673881 674881 675881 676881 677881 67881 679881 680881 681881 682881 683881 684881 685881 686881 687881 68881 689881 690881 691881 692881 693881 694881 695881 696881 697881 69881 699881 700881 701881 702881 703881 704881 705881 706881 707881 70881 709881 710881 711881 712881 713881 714881 715881 716881 717881 71881 719881 720881 721881 722881 723881 724881 725881 726881 727881 72881 729881 730881 731881 732881 733881 734881 735881 736881 737881 73881 739881 740881 741881 742881 743881 744881 745881 746881 747881 74881 749881 750881 751881 752881 753881 754881 755881 756881 757881 75881 759881 760881 761881 762881 763881 764881 765881 766881 767881 76881 769881 770881 771881 772881 773881 774881 775881 776881 777881 77881 779881 780881 781881 782881 783881 784881 785881 786881 787881 78881 789881 790881 791881 792881 793881 794881 795881 796881 797881 79881 799881 800881 801881 802881 803881 804881 805881 806881 807881 80881 809881 810881 811881 812881 813881 814881 815881 816881 817881 81881 819881 820881 821881 822881 823881 824881 825881 826881 827881 82881 829881 830881 831881 832881 833881 834881 835881 836881 837881 83881 839881 840881 841881 842881 843881 844881 845881 846881 847881 84881 849881 850881 851881 852881 853881 854881 855881 856881 857881 85881 859881 860881 861881 862881 863881 864881 865881 866881 867881 86881 869881 870881 871881 872881 873881 874881 875881 876881 877881 87881 879881 880881 881881 882881 883881 884881 885881 886881 887881 88881 889881 890881 891881 892881 893881 894881 895881 896881 897881 89881 899881 900881 901881 902881 903881 904881 905881 906881 907881 90881 909881 910881 911881 912881 913881 914881 915881 916881 917881 91881 919881 920881 921881 922881 923881 924881 925881 926881 927881 92881 929881 930881 931881 932881 933881 934881 935881 936881 937881 93881 939881 940881 941881 942881 943881 944881 945881 946881 947881 94881 949881 950881 951881 952881 953881 954881 955881 956881 957881 95881 959881 960881 961881 962881 963881 964881 965881 966881 967881 96881 969881 970881 971881 972881 973881 974881 975881 976881 977881 97881 979881 980881 981881 982881 983881 984881 985881 986881 987881 98881 989881 990881 991881 992881 993881 994881 995881 996881 997881 99881 999881 1000881 1001881 1002881 1003881 1004881 1005881 1006881 1007881 100881 1009881 1010881 1011881 1012881 1013881 1014881 1015881 1016881 1017881 101881 1019881 1020881 1021881 1022881 1023881 1024881 1025881 1026881 1027881 102881 1029881 1030881 1031881 1032881 1033881 1034881 1035881 1036881 1037881 103881 1039881 1040881 1041881 1042881 1043881 1044881 1045881 1046881 1047881 104881 1049881 1050881 1051881 1052881 1053881 1054881 1055881 1056881 1057881 105881 1059881 1060881 1061881 1062881 1063881 1064881 1065881 1066881 1067881 106881 1069881 1070881 1071881 1072881 1073881 1074881 1075881 1076881 1077881 107881 1079881 1080881 1081881 1082881 1083881 1084881 1085881 1086881 1087881 108881 1089881 1090881 1091881 1092881 1093881 1094881 1095881 1096881 1097881 109881 1099881 1100881 1101881 1102881 1103881 1104881 1105881 1106881 1107881 110881 1109881 1110881 1111881 1112881 1113881 1114881 1115881 1116881 1117881 111881 1119881 1120881 1121881 1122881 1123881 1124881 1125881 1126881 1127881 112881 1129881 1130881 1131881 1132881 1133881 1134881 1135881 1136881 1137881 113881 1139881 1140881 1141881 1142881 1143881 1144881 1145881 1146881 1147881 114881 1149881 1150881 1151881 1152881 1153881 1154881 1155881 1156881 1157881 115881 1159881 1160881 1161881 1162881 1163881 1164881 1165881 1166881 1167881 116881 1169881 1170881 1171881 1172881 1173881 1174881 1175881 1176881 1177881 117881 1179881 1180881 1181881 1182881 1183881 1184881 1185881 1186881 1187881 118881 1189881 1190881 1191881 1192881 1193881 1194881 1195881 1196881 1197881 119881 1199881 1200881 1201881 1202881 1203881 1204881 1205881 1206881 1207881 120881 1209881 1210881 1211881 1212881 1213881 1214881 1215881 1216881 1217881 121881 1219881 1220881 1221881 1222881 1223881 1224881 1225881 1226881 1227881 122881 1229881 1230881 1231881 1232881 1233881 1234881 1235881 1236881 1237881 123881 1239881 1240881 1241881 1242881 1243881 1244881 1245881 1246881 1247881 124881 1249881 1250881 1251881 1252881 1253881 1254881 1255881 1256881 1257881 125881 1259881 1260881 1261881 1262881 1263881 1264881 1265881 1266881 1267881 126881 1269881 1270881 1271881 1272881 1273881 1274881 1275881 1276881 1277881 127881 1279881 1280881 1281881 1282881 1283881 1284881 1285881 1286881 1287881 128881 1289881 1290881 1291881 1292881 1293881 1294881 1295881 1296881 1297881 129881 1299881 1300881 1301881 1302881 1303881 1304881 1305881 1306881 1307881 130881 1309881 1310881 1311881 1312881 1313881 1314881 1315881 1316881 1317881 131881 1319881 1320881 1321881 1322881 1323881 1324881 1325881 1326881 1327881 132881 1329881 1330881 1331881 1332881 1333881 1334881 1335881 1336881 1337881 133881 1339881 1340881 1341881 1342881 1343881 1344881 1345881 1346881 1347881 134881 1349881 1350881 1351881 1352881 1353881 1354881 1355881 1356881 1357881 135881 1359881 1360881 1361881 1362881 1363881 1364881 1365881 1366881 1367881 136881 1369881 1370881 1371881 1372881 1373881 1374881 1375881 1376881 1377881 137881 1379881 1380881 1381881 1382881 1383881 1384881 1385881 1386881 1387881 138881 1389881 1390881 1391881 1392881 1393881 1394881 1395881 1396881 1397881 139881 1399881 1400881 1401881 1402881 1403881 1404881 1405881 1406881 1407881 140881 1409881 1410881 1411881 1412881 1413881 1414881 1415881 1416881 1417881 141881 1419881 1420881 1421881 1422881 1423881 1424881 1425881 1426881 1427881 142881 1429881 1430881 1431881 1432881 1433881 1434881 1435881 1436881 1437881 143881 1439881 1440881 1441881 1442881 1443881 1444881 1445881 1446881 1447881 144881 1449881 1450881 1451881 1452881 1453881 1454881 1455881 1456881 1457881 145881 1459881 1460881 1461881 1462881 1463881 1464881 1465881 1466881 1467881 146881 1469881 1470881 1471881 1472881 1473881 1474881 1475881 1476881 1477881 147881 1479881 1480881 1481881 1482881 1483881 1484881 1485881 1486881 1487881 148881 1489881 1490881 1491881 1492881 1493881 1494881 1495881 1496881 1497881 149881 1499881 1500881 1501881 1502881 1503881 1504881 1505881 1506881 1507881 150881 1509881 1510881 1511881 1512881 1513881 1514881 1515881 1516881 1517881 151881 1519881 1520881 1521881 1522881 1523881 1524881 1525881 1526881 1527881 152881 1529881 1530881 1531881 1532881 1533881 1534881 1535881 1536881 1537881 153881 1539881 1540881 1541881 1542881 1543881 1544881 1545881 1546881 1547881 154881 1549881 1550881 1551881 1552881 1553881 1554881 1555881 1556881 1557881 155881 1559881 1560881 1561881 1562881 1563881 1564881 1565881 1566881 1567881 156881 1569881 1570881 1571881 1572881 1573881 1574881 1575881 1576881 1577881 157881 1579881 1580881 1581881 1582881 1583881 1584881 1585881 1586881 1587881 158881 1589881 1590881 1591881 1592881 1593881 1594881 1595881 1596881 1597881 159881 1599881 1600881 1601







## INTERNATIONAL CAPITAL MARKETS

## Belgium interest rate cuts inspire continental markets

By Sara Webb in London and Patrick Harverson in New York

EUROPEAN AND UK government bond prices soared yesterday, propelled by hopes of lower interest rates.

Belgium provided the main inspiration for the continental bond markets as the combination of a government economic recovery plan and sharp cuts

## GOVERNMENT BONDS

in key interest rates lifted bond prices by as much as a point.

The Belgian 10-year yield spread over German government bonds - which was about 120 basis points earlier in the month - narrowed from 109 to 94 basis points at one stage yesterday but ended at around 86 basis points.

The Belgian government's package of spending cuts and tax increases, aimed at reducing the deficit while lifting competitiveness and employment, allowed the central bank to cut its key interest rates.

The Belgian rate moves

inspired rallies in several other European markets, raising hopes of interest rate cuts elsewhere, while expectations that the North American Free Trade Agreement would pass contributed to the markets' generally enthusiastic mood.

**FRENCH** bonds ended sharply higher on hopes of a near-term rate cut by the Bank of France.

Although the German market was closed for a public holiday yesterday, the Lifebund futures contract ended a quarter of a point higher on the day, having traded in a range of 95.95 to 100.35 and ending at around 100.27.

While there is some speculation that the Bundesbank may announce cuts in the key German interest rates today at the regular council meeting, dealers said the majority view was to be for an easing in December. The recently-watched money supply figures are due this week while cost-of-living data is expected next week.

**NEWS** of a sharp fall in inflation and a weaker-than-expected increase in retail sales

## FT FIXED INTEREST INDICES

	Nov 17	Nov 16	Nov 15	Nov 12	Nov 11	Year ago	High *	Low *
GovSecs (BQ)	103.54	103.13	103.07	102.74	102.62	94.06	103.60	93.26
Flopd Interest	123.78	123.47	123.34	123.35	123.32	109.07	125.20	108.67

Basis 100: Government Securities 15/10/28; Flopd Interest 18/26.



## COMPANY NEWS: UK

# Reduced underwriting loss lifts CU to £144m

By Richard Lapper

A REDUCTION in underwriting losses helped Commercial Union, the largest composite insurer, increase pre-tax profits to £144.2m for the first nine months of 1993, against £6.1m for the same period of last year.

The figures were roughly in line with expectations and the shares rose 10p to close at 606p.

"The substantial improvement in general insurance trading, especially in the UK, continued in the third quarter and life profits again made a significant contribution," said Mr Tony Brand, chief executive.

UK underwriting losses amounted to £59.8m (£128.6m), with London market losses of £70.9m (£55.4m) offsetting profits on other lines.

CU said that although market conditions were continuing to improve, there "are signs of

increased competition for private motor business".

General insurance premiums rose by 26 per cent to £3.1bn (£2.46bn), and life premiums increased by 7 per cent to £1.39bn (£1.3bn). Investment income advanced to £283.4m (£212.4m) - after charging external loan interest of £21.4m (£36.1m) - reflecting the benefit from higher cash flow, the proceeds of capital issues and exchange rate movements.

Group underwriting losses fell to £215.3m (£302.3m). Associates contributions were £9.7m (£14m). Non-life profits amounted to £57.8m (£75.9m losses) and life profits were £86.4m (£82m). The figures include a loss of £3.7m, which relates to the termination of activities in Argentina.

Shareholders' funds at September 30 increased to £2.31bn (£1.5bn at end-1992), which included £43m from the rights issue and £21m from shares in lieu of dividends.

## COMMENT

Results this week from Royal General Accident and Commercial Union leave no doubt about the recovery in the UK insurance market. The main question for investors is which of the five large composites in favour. On some grounds CU looks a shade expensive. The company should comfortably achieve full year profits of £180m. So at yesterday's closing price, CU is on a prospective multiple of about 21, one of the highest ratings in the sector. However, in other ways the company appears to be a safer bet than its rivals. A historic gross yield of 5.1 provides firm underpinning. Less volatile life business provides a much higher percentage of CU's earnings than at any of its four main composite rivals. At the nine months stage, life provided 30 per cent of income and nearly 60 per cent of operating profits.

# Acquisitions behind 49% Volex surge

By Peter Pearson

VOLEX GROUP, the electrical interconnection products company, lifted pre-tax profits 49 per cent, from £3.21m to £4.8m, in the 26 weeks to September 30.

However, Mr Ken Hooper, finance director, said that the corresponding period did not include May, the Singapore-based maker of data and power cord assemblies acquired in October 1992 for £6.5m, or CMS, the US moulded cable assemblies maker bought in January 1993 for £3.1m.

Group turnover grew 47 per cent to £72.5m (£49.4m) and operating profits advanced 61 per cent to £4.83m (£3.01m). Investment income rose to £448,000 (£222,000) though interest payable also rose to £478,000 (£18,000).

Mr Oliver Chapple, who became chief executive in October after Mr Howard Poulson had been head-hunted by Farnell Electronics in May, said that Volex now had three poles of operations - the Far East, Europe and the US. After the rapid expansion of the last two years - especially overseas; 60 per cent of sales are now outside the UK - Volex now had an international capability in marketing and supply.

Volex had to become "a unified force" within the global market, Mr Chapple said, with its sourcing rationalised and with co-ordinated marketing initiatives. Then organic growth would follow. Mr Bill Goodall, chairman, added that Volex would still be looking to make another important strategic move - along the lines of the May acquisition.

In cable assemblies, Pencocon continued to benefit from legislation over the pre-fitting of plugs to electrical appliances. In Europe sales grew to the personal computer industry but fell to the mainframe market. The US "stood still", said Mr Chapple, though the group was now also focusing on the medical sector which he expected would have a high growth rate.

Specialist cables and wiring harnesses performed less well though Volex Wiring Systems had now been restructured. Earnings fell to 10.5p (11.2p). The interim dividend is unchanged at 6.5p.

# Housing starts help Meyer to £19m

By Catherine Milton

MEYER INTERNATIONAL, the building products group, said yesterday that the fragile recovery in the UK housing market and thus the outlook for its own profits hinged on the Budget later this month.

"We would see a neutral budget as reasonably positive for our business," said Mr John Dobby, chief executive, as he reported a jump in interim pre-tax profits from £8.6m to £19m.

Meyer was helped by the full benefit of a lower cost base after three years of cost-cutting.

Sales in the six months to September 30 rose to £600.8m compared with £540.5m, stripping out a £17.7m contribution from Cadel, a plumbers' and

heating merchants sold last year.

Meyer, which raised £70m in a rights issue in April, is holding its interim dividend at 4.2p, payable from earnings up at 11.3p (5.9p restated), and expressed cautious optimism about prospects: "We have seen a modest increase in demand in the first six months and we have seen that continue in October and November to date."

Mr Dobby said Meyer had been helped by housing starts climbing "steadily upwards" because of the "direct relationship" with its main product, timber.

He said prices had risen between 2.5 per cent and 3 per cent on an annualised basis after "many years" of falls, with the price of timber falling a little more.

Operating profits rose to £24m (£17.9m). The 191-strong Jewson builders' merchants chain, which closed 11 branches last year, improved its contribution to £10.3m (£7.1m) on sales up at £215.1m (£209.4m).

Meyer may add branches and said had debts in the division fell to 0.74 per cent (1.5 per cent) of sales.

Profits in the forest products division were £4.4m (£6.1m) on sales of £180.5m (£156.8m). In continental Europe profits were £6.5m (£5m) on sales ahead at £196.3m (£188.6m).

US laminates delivered profits of £200,000 against last year's neutral contribution on sales ahead at £10.1m (£6.7m).

Net interest payments fell to £5m (£6.8m) as the rights funds helped reduce net borrowings

to £69.1m (£138.4m). Gearing was 20.6 per cent (53.9 per cent).

## COMMENT

Loyal shareholders deserve some recovery after last year's dividend cut and stumping up for the rights issue which critics pin to the £63.4m net cost so far of Meyer's unhappy diversifications. The company is not alone in such mistakes and has some successes, such as Pont Meyer in the Netherlands and the US laminates business, to its credit. Taking the positive with the negative, analysts have upgraded full-year pre-tax forecasts to between £39.5m and £41m giving a range of multiples between 17 and 20 - in line with the sector. Buyers expect earnings growth on margin recovery.

# Cost cutting and rising output behind earnings surge at Lonrho SA

By Kenneth Gooding, Mining Correspondent

COST CUTTING and increased output helped boost income after tax at Lonrho South Africa's platinum interests by more than 100 per cent in the year to end-September, from £27.8m to £55m (£8.7m).

However, the fall in the price of rhodium, by 44 per cent from the 1992 average, hit cash flow so borrowings increased by £80.4m to £807.9m.

Lonrho SA said that production of refined platinum group metals rose by 27.5 per cent to more than 935,000 troy ounces.

Unit costs, from mining through to production of metals in matte, fell by 8.2 per cent to R19,807 a kilo, excluding a one-off cost of redundancies, and by 7.5 per cent to R19,590 including this cost.

Turnover at the division, which takes in Eastern Platinum in Bophuthatswana and Western Platinum in the Transvaal plus Western's refinery near Johannesburg, rose by 10 per cent from R930.2m to R914.7m.

Net income, after an extraordinary item of R91.6m (R11m) associated with a reduction in deferred tax liability following a lowering of the tax rate, was R147.7m (R38.9m).

Lonrho said capital expenditure, excluding interest capitalised, was R100m and would be about the same this year.

# Unilever puts a smile on Chinese faces with toothpaste venture

By Gary Evans

UNILEVER IS to set up a joint venture with Shanghai Toothpaste Factory in China for the production and marketing of oral care products.

Unilever will have a 80 per cent share in the venture - its sixth in China - which will employ 1,850 people.

Shanghai Toothpaste claims to be China's largest toothpaste manufacturer - producing more than 650m tubes a year - and with about 5 per cent of world production, is also the largest manufacturer in Asia.

Its brands Zhonghua (China) and Maxam are well known in China, while Maxam is also exported to several Asian and African countries.

With a population of over 1.2bn, the Chinese oral care market has substantial growth potential. Toothpaste is already widely used and there are significant opportunities as oral hygiene consciousness increases, prompted by educational programmes aimed at the predominantly young population.

Shanghai Toothpaste and Unilever will team up to utilise technological and marketing expertise to further develop the Chinese brands, together with Unilever's existing international brands which will be introduced in China. Unilever's brands include Signal, Mento, Pepsodent and Close-Up.

The transaction will be subject to the approval of the Shanghai authorities.

# P&S News up 10% to £3.8m

Portsmouth & Sunderland Newspapers, the publishing, printing and retailing group, increased pre-tax profits by 16 per cent from £2.38m to £2.75m in the half year to September 25, on turnover 6 per cent higher at £64.9m, against £62.5m.

All group companies improved profits apart from Portsmouth Publishing & Printing which suffered a further decline in its market place. In response to these poor

conditions, P&S closed a free newspaper, Streetlife, and also continued to reduce manpower elsewhere.

These actions resulted in rationalisation costs of £639,000 (£266,900). Excluding these costs, underlying profits before tax increased by 19 per cent.

Earnings per share slipped to 20.2p (20.6p), in line with the board's intention of paying an interim of about one third of the previous year's total, the interim is 3.12p (2.94p).

DIVIDENDS ANNOUNCED					
	Current payment	Date of payment	Cumulative dividend	Total for year	Total for year
Abacus	0.25	Dec 31	-	-	14
Courtside	0.25	Jan 31	3.5	-	14
Essex Water	36.7	Dec 15	36.9	-	78.4
Jarvis Porter	1.55	Jan 24	1.5	-	4.7
Land Securities	0.6	Dec 17	6.3	-	22.85
M&G Insurance	0.05	Dec 10	0.65	-	3.82
Meyer Int	4.2	Feb 4	4.2	-	10
P&S Newspapers	3.12	Dec 31	2.84	-	9.46
Prop Partnerships	2.6	Jan 12	2.55	-	7.25
Suffolk Water	23.3	Dec 15	23.7	-	47.5
Volex	6.5	Feb 7	6.5	-	17.96
Wapoor	5.3	Jan 6	4.7	-	16.8
Young & Co's	7.25	Dec 17	7	-	14.5

Dividends shown pence per share net except where otherwise stated.

\*Second interim makes 1.7p to date.

# BUSINESSES FOR SALE

Appear in the Financial Times on Tuesdays, Fridays and Saturdays.

For further information or to advertise in this section please contact

Karl Layton on 071 873 4780 or

FINANCIAL TIMES

London & Manchester

# COMMERCIAL UNION

NINE MONTHS' RESULTS

# Strong profit growth

- ★ Pre-tax profits from continuing activities increase to £144.2m.
- ★ General insurance trading conditions continue to improve, especially in the United Kingdom.
- ★ Selective growth in life and general business.
- ★ Life profits increase to £86.4m.
- ★ Shareholders' funds increase to £2,314m.

	HIGHLIGHTS	
	9 months 1993 Unaudited	9 months 1992 Unaudited
Total premium income	£4,488m	£3,761m
Operating profit before taxation and loss on termination of activities	£144.2m	£6.1m
Operating profit/(loss) after taxation and loss on termination of activities (note 1)	£124.5m	£(5.7)m
Operating profit/(loss) per share (note 2)	20.7p	(1.8)p

Notes: 1. Unprofitable operations in Argentina have been terminated incurring a charge of £3.7m.

2. The 1992 operating loss per share has been adjusted for the effect of the 1993 rights issue and the enhanced scrip dividend alternative to the 1993 interim dividend.

Commercial Union plc, St. Helen's, 1 Undershaft, London EC3P 3DQ

# WORLD ACCOUNTING REPORT

WORLD ACCOUNTING REPORT provides comprehensive and authoritative monthly coverage of changes in financial accounting worldwide.

It reports and analyses:

- Shifting attitudes and responsibilities within the profession.
- Programmes, publications and policies of the main national and international accounting committees and regulatory bodies - including the IASC, FEE, IFAC, OECD and UN.
- National and international developments in accounting standards and practice from the viewpoint of the accountant in industry.
- Business of the accountancy and auditing firms.

To receive a FREE sample copy contact:

Rachel Thomas  
Marketing Department,  
Financial Times Newsletters,  
3rd Floor, Number One,  
Southwark Bridge,  
London SE1 9HL  
Tel: (+44 71) 873 3000  
Fax: (+44 71) 873 3935

FINANCIAL TIMES

# The Financial Times plans to publish a special Denma on Monday, November 29

54% of Chief Executives in Europe's largest companies read the FT\*  
If you want to reach this important audience, and decision makers worldwide please call:

Emma Pio in Copenhagen  
Tel: +45 33134441  
Fax: +45 33835335

Kirsty Saunders in London  
Tel: +44 071 8734823  
Fax: +44 071 8734828

FT Surveys

\*Source: Chief Executives in Europe 1990

itsen



which involve the construction of more than 20 reactors. At the very least Russia is likely to need World Bank help if it is to proceed. In the Ukraine, unable and

and western nuclear engineers. Mr Remy Carle, chairman of the WANO governing board and deputy general manager of Electricite de France, told the

economy, supplies of other fuels and other factors over which the nuclear industry has little control.

A member of the GEC Group of Companies



## COMPANY NEWS: UK

£2.9m boost from sale of investment properties

## Land Securities edges ahead to £118.9m

By David Blackwell

LAND SECURITIES, the UK's biggest property company, yesterday lifted its interim dividend as pre-tax profits edged ahead to £118.9m for the six months to the end of September.

The outcome compared with a previous £116.5m. Earnings per share were ahead from 16.58p to 17.22p; the dividend is lifted by 4.8 per cent from 6.3p to 6.6p.

Excluding the £2.9m proceeds on the sale of investment properties, pre-tax profit was almost unchanged at £116.2m. Net rental income improved from £187.6m to £192.3m.

Mr Peter Hunt, chairman and managing director, said the results confirmed his view that, until rental growth fed through into higher rents, net revenue from the group's existing portfolio was likely to remain flat.

He described the recovery as slow and fragile. Rents were continuing to fall in central London, but increased enquiries and a falling level of high quality space suggested that "rental levels for the best property may be close to reaching a floor."

The group, which in May



Peter Hunt: described recovery as slow and fragile

raised £140m for new property investment through a convertible bond issue, spent or committed £70m on purchases during the six months. The biggest purchase was the Bridges Shopping Centre in Sunderland. At the end of September it had just over £265m of funds available for future acquisitions, developments and refurbishments.

Net interest payable rose from £58m to £66.1m.

Mr Hunt said the group had made considerable progress in reducing voids from about 4 per cent of the rent roll to 3 per cent, excluding vacant buildings held for future development.

The group would continue its policy of cutting the level of voids and overheads, rebalancing its portfolio with retail and industrial/warehouse acquisitions, and keeping its property in the best possible condition.

## Dalgety in talks to buy BP petcare business

By Deborah Hargreaves

DALGETY, the food and agriculture group, is in talks with British Petroleum over the purchase of its Paragon Petcare business for between £40m and £50m. The company hopes to complete the purchase within the next five weeks.

Paragon is one of the few remaining businesses in the BP Nutrition division, which the company put up for sale a year ago. Paragon has sales of £103m spread across Europe and makes a profit, although neither company would reveal how much.

Dalgety holds a 25 per cent share of the UK market with its Spillers Petfoods group and its main Winalot brand, with roughly 8 per cent of the European market. "There are several elements we find attractive... It will give us a much wider geographical spread throughout Europe and a management presence in Europe," said Mr John Martin, Dalgety's finance director.

Paragon has its headquarters in Bunnick, the Netherlands, with plants in the UK, Germany and France. It will also add to Dalgety's presence in branded dry petfoods with its Beta product in the UK market where the agriculture company has not such a strong presence.

BP has sold its main nutrition business leaving a few peripheral companies active in fish farming and chicken breeding still to sell. Earlier this year, it sold Purina Mills, the largest supplier of animal feeds in the US, to the Sterling group, a venture capital organisation.

Lear Siegler and is a leading designer and manufacturer of gaseous pollutant monitoring instruments and integrated systems.

The net assets being acquired by Bowthorpe were valued at \$4.5m at the end of June. For the year to June 30, Lear Siegler reported a loss of \$300,000 on turnover of about \$30m.

The business is now trading profitably. Under Bowthorpe the business will operate as Monitor Labs, but will continue to be run by its current management.

## Bowthorpe's \$21m expansion

By Paul Taylor

BOWTHORPE, the international electronic and electrical components group, has strengthened its environmental monitoring instrument operations with the acquisition of Colorado-based Lear Siegler Measurement Controls for \$21m (£14m) cash.

The instruments manufactured by the company are mainly used to measure dispersed gaseous pollutants outdoors and the opacity of emissions from industrial chimneys.

Commenting on the acquisition, Mr John Westhead, Bowthorpe's chief executive, said: "This business will fit extremely well into Bowthorpe's data acquisition and environmental sector."

Bowthorpe's data acquisition and environmental operations already comprises six companies which bring together US and UK-based expertise in electronic data gathering and monitoring for environmental, advanced research and aerospace applications.

Lear Siegler Measurement Controls, which is based in Englewood, Colorado, is a wholly owned subsidiary of

equity. In addition to the money raised, they are to place their rights entitlement, amounting to 2.68m shares, with institutions, leaving their interest in the company at 62.1 per cent.

The move to a full listing is expected to take effect from December 13.

Banner now owns or controls 38 sites with potential for building 800 units. Its target is to complete some 70 units in the year ending March 31 1994 and to increase this to about 150 units by end-March 1995.

The group currently manages two BES house-building companies and holds a 10.7 per cent interest in each.

It has entered into a put and call option to acquire all of the assets and liabilities of the two companies in April 1995.

## Banner seeks £3m and full listing

By John Murrell

BANNER HOMES, the Buckinghamshire-based housebuilder, yesterday called for £3.9m via a rights issue and also announced plans to move from the USM to the main market.

The cash call is of 3.61m new shares at 89p, fully underwritten by Charterhouse Bank, on a 2-for-7 basis. Brokers to the issue are Charterhouse Tilney Securities.

The money raised will enable Banner to "finance its plans based on its strong land position." It will also help to reduce debt.

Mr Stuart Crossley, chairman and chief executive, together with connected interests, currently own 10.1m shares - or 79.3 per cent of the

Exit from fashion business will cost £6.5m and lose 300 jobs

## Pittards to close clothing division

By Peggy Hollinger

PITTARDS, the leather company, yesterday accepted defeat in its four-year battle to stay in the fashion business with the announcement that it had decided to close its clothing division at a cost of £6.5m and 300 jobs.

The decision will leave Pittards with losses estimated at about £7m for the 1993 year and has cast doubt on the dividend payment. Pittards said it was unlikely to return to "a normal level of distribution"

in light of the announcement. Pittards, along with its main rival Strong & Fisher, has been struggling to recover from the effects of extremely volatile sheepskin prices in the late 1980s. Strong & Fisher survived only after a rescue cash injection from Hillsdown Holdings, the food group.

Mr John Buckley, finance director, said the costs of closing the Abingdon factory, together with property write-downs and advance corporation tax write-offs, would result in an £8.5m reduction in

the group's net assets to £22.1m. This would have forced Pittards to breach several of its banking covenants. However, these had been waived after negotiations with the group's bankers.

Pittards has debt of £17.4m, leaving gearing at about 80 per cent. The redundancy programme would push gearing up to 90 per cent by the end of the year. Its banking facilities are up for renegotiation in March.

Pittards first entered the fashion business in 1986 with

the acquisition of Garner Booth. The closure leaves Pittards with its original businesses of chamois leather, gloving leather and shoe and other leathers.

Mr Buckley said he was optimistic that Pittards would return a profit next year. The clothing division, which has returned losses for each of the last four years, is estimated to have incurred a deficit of about £1.5m for the 10 months of this year. Analysts are forecasting a return to profits of about £2m in 1994.

## Aer Lingus workforce poised to take 5% equity stake

By Tim Coone in Dublin

THE 1250m (£47.2m) cost-cutting rescue plan for Aer Lingus, Ireland's state airline, appeared to have passed one of its final hurdles last night, after the Irish government agreed terms with unions for the workforce to take a 5 per cent equity stake in the company in return for a two-year pay freeze.

The equivalent of a further 5 per cent stake will be paid in cash if the airline returns to profitability.

Mr Paul O'Sullivan, the principal union negotiator, said: "Workers have achieved a major breakthrough... and secured a strategic stake in Aer Lingus. This is also a first in European national airlines."

Aer Lingus workers will immediately become real shareholders in the company and be able to influence its strategic direction. Earlier this month, SIPTU, the trade union representing the majority of the airline's

5,500 workforce, accepted payroll cuts amounting to £21m and "radical" changes in work practices, involving 800 voluntary redundancies.

Agreement had not been reached, however, on pay awards for the coming two years, and it was decided to refer this matter to arbitration.

A tribunal ruled last week that there should be a pay freeze for two years, but which would be softened by an £82m fund to be distributed to the workforce in 1995 on condition that payroll cost-cutting targets are met.

SIPTU was unhappy with the ruling and decided to suspend a ballot of its members on acceptance of the overall rescue package until the government improved an offer to give a 5 per cent equity stake in the airline to the workforce.

SIPTU had earlier demanded 15 per cent; one of its officials pointed out: "This is far less than the 45 per cent stake that has been given to the workforce in some US airlines."

The negotiations with the government were handled by the Irish Congress of Trade Unions, which views the outcome of the negotiations as creating a yardstick for rationalisations and pay awards in other state enterprises, such as Telecom Eireann, which are being groomed for eventual privatisation.

The first £75m tranche of a £175m equity injection by the government is due to be made in December, but is conditional both on acceptance of the rescue package by the workforce, and approval by the European Commission. The injection is required to fund restructuring of the airline and the voluntary redundancies, some of which are already taking place.

The airline's rivals on the intensely competitive Dublin-London route are opposed to any of the equity injection being used to set up a new low-cost, no-frills service on the route, and are lobbying intensely in Brussels to block the plan.

## Nationwide buys £24m mortgages

By Alison Smith

Nationwide, the UK's second largest building society, said yesterday that it had bought the National Bank of Canada's mortgage book.

Purchase of the mortgage portfolio, worth £24.1m, marks the bank's departure from the UK mortgage business, which it entered in 1988. Neither the bank nor the Nationwide would reveal the price that had been paid.

The portfolio will be managed by Nationwide Home Loans, a wholly owned subsidiary of the building society, bringing its assets to £147m. The society itself has assets of over £24bn.

National Bank of Canada said that it had sold the mortgage book because its core business was in treasury and corporate matters rather than on the retail side.

In August, the bank reported a strong recovery for the third quarter and nine months.

## Samuel Montagu Specialised Financing

## Pizzaland International Limited

purchase of

## Rank Restaurants Limited

£18,000,000

Acquisition and Working Capital Finance

arranged by

SAMUEL MONTAGU

February 1993

## The News Corporation Limited

\$3,000,000,000

Revolving Credit Facility

co-arranged by

SAMUEL MONTAGU

May 1993

## First Corporate Shipping Limited

finance for

The Port of Bristol

£34,500,000

Term Loan and Revolving Credit Facilities

arranged by

SAMUEL MONTAGU

June 1993

## Unionamerica Acquisition Company Limited

leveraged acquisition

\$57,000,000

Term Loan

co-arranged by

SAMUEL MONTAGU

October 1993

Whenever our involvement, from the arrangement and provision of debt facilities for management buy-outs and corporate acquisitions, to advice on the most complex recapitalisations, we always seek to blend an imaginative approach with the most effective and appropriate financing structure. What's more, we can bring to bear the specialist resources within Samuel Montagu - Corporate Finance, Export & Project Finance and Capital Markets - and those of the HSBC Group worldwide, to provide a broad-based solution. To learn more about our services call us on 071-266 9484.



SAMUEL MONTAGU  
HSBC Investment Banking Group

Samuel Montagu & Co. Limited  
10 Lower Thames Street, London EC3N 4LR. A member of The Securities and Futures Authority.  
Member HSBC Group

0049

DON'T CRACK UNDER PRESSURE

Professional 200 METERS

TAG Heuer

SWISS MADE SINCE 1860









## Over the last 5 years we've helped millions to emigrate to Europe.

As European issuers look for increasingly efficient and cost effective ways to raise capital, more and more are discovering the difference that Merrill Lynch can make.

Our philosophy is simple: to link market to market, capital to companies and people to opportunities. To provide better local solutions by being globally more proficient.

The increasing flow of investment capital from the U.S. to Europe means that issuers can benefit in a way not previously imagined.

No-one is in a better position to access this flow than Merrill Lynch.

With over \$500,000,000,000 of assets held in our client accounts we're helping a growing number of banks, corporations and governments in Europe succeed in their capital raising requirements.

Over 7% of our American investor clients' assets are now invested outside the U.S., a figure that has more than doubled in the past 3 years.

And it's not just in dollars that our strength lies.

For the past five years we've been the leading underwriter of global debt and equity worldwide, in a multiplicity of different currencies.

Specifically in Europe, we helped Midland Bank raise \$250m; Roche Holdings \$977m; and for The Republics of Finland and Portugal we managed \$3 billion and \$1 billion bond issues respectively.

These are just four clients who have discovered the difference that Merrill Lynch can make. A difference we'd be pleased to demonstrate wherever in Europe we can be of service.

**The difference is Merrill Lynch.**



Approved by Merrill Lynch International Limited and Merrill Lynch International Bank Limited, members of The Securities and Futures Authority Limited.



## COMMODITIES AND AGRICULTURE

## Inco sees nickel market heading for deficit

By Kenneth Gooding, Mining Correspondent

EVIDENCE IS building that points to a big cut in Russian nickel production and exports. This has led Inco of Canada, the largest western producer, to claim that nickel supply and demand are virtually in balance this year and the market is heading for a deficit in 1994. Sumitomo Metal, Japan's leading nickel producer, has publicly predicted that Russian nickel exports to the west will plunge by 35 per cent to 85,000 tonnes this year from an esti-

mated 130,000 tonnes in 1992. Mr Mars Alibayev, logistics manager for Norilsk of Russia, the world's biggest producer, joined the debate yesterday when he told a Metal Bulletin conference in Florida that his country's nickel exports in 1993 and 1994 would be no more than 90,000 tonnes each year. He suggested that Norilsk's output this year would be at least 20,000 tonnes below recent western estimates of 230,000 tonnes.

The International Nickel Study Group estimates that world nickel production fell by

70,900 tonnes or 11 per cent in the first nine months of 1993, to 581,300 tonnes, and that most of the drop occurred in the Confederation of Independent States. The INSG calculated production in the CIS plunged by more than 30 per cent, by 57,000 to 126,000 tonnes, in the nine months.

Inco "guesstimates" that Russian production will be flat at about 180,000 tonnes in 1994 and that in the first quarter of next year world demand will exceed supply by 50m lb (22,680 tonnes).

"I believe the stories we hear

from all quarters, including Norilsk, of reduced Russian production are correct," says Mr Peter Salathiel, Inco's executive vice president of marketing. "Mining problems abound, expensive equipment and supplies seem to be lacking. The result is an involuntary production cut of truly staggering proportions - some 120,000 tonnes or 25m lb in two years.

As for Russian exports, Mr Salathiel suggests that supply to the west of "backdoor" - or illegally exported - nickel has

Norilsk took over from the state the allocation system for Russian consumers. Previously some customers were exporting nickel illegally in order to survive a big fall in domestic consumption. "Knowing its customers, Norilsk has been better able to match deliveries with customer requirements and hence the supply of backdoor nickel has been sharply reduced," says Mr Salathiel.

He suggests that total imports of Russian nickel to the west will fall by 40,000 tonnes to a "miserly" 80,000 tonnes next year.

## Ministers in agreement on EC fraud curbs

By Kenneth Gooding

EUROPEAN COMMUNITY farm ministers yesterday broadly agreed measures to reinforce controls on subsidised exports to prevent fraud, Belgian farm minister Andre Bourgeois said, reports Reuters from Brussels.

"Ministers achieved virtual unanimity... they just need to finalise the text," added Mr Bourgeois, whose country is the current holder of the EC presidency, after a meeting of the community's agriculture council.

Under the plan officials would be given flexibility to concentrate inspections where the risk of fraud was greatest. They would be required to inspect 5 per cent of all subsidised exports, instead of 5 per cent in each product sector as at present.

Customs officials at EC frontiers would also check a certain volume of exports cleared in the interior to safeguard against substitution of goods.

"It is a confidence building measure for member states and for the public," the Belgian minister said.

The ministers will discuss the issue again at the next agriculture council, which is scheduled to start on December 13.

## RTZ to spend \$500m at Utah copper complex

By Kenneth Gooding

RTZ CORPORATION, the world's biggest mining company, is to spend \$500m over five years to expand and upgrade tailings (waste) facilities at its Bingham Canyon copper complex in Utah.

This takes RTZ's financial commitment at Bingham to \$1.4bn as it has already started a \$80m project to build a new smelter that will take annual copper output from 155,000 to 272,000 tonnes and use up all production of concentrate (an intermediate material). At present Bingham sells 50 to 60 per cent of its concentrate.

Also, Kennecott, the RTZ subsidiary that operates Bingham, recently finished an expansion of the concentrator costing \$210m. Kennecott is the third-largest copper producer in the US, with about 15 per cent of the nation's supply.

The tailings expansion will eventually cover 4,100 acres and is designed to provide waste storage for Bingham for the next 25 to 30 years. Kennecott hopes permits will be obtained in time for construction to start early next year, which will enable the project to be completed in 1998.

● Newmont Mining, North America's biggest gold producer, has reached agreement for a group of international banks to provide US\$105m for its heap leach joint venture near the Muruntau mine in Uzbekistan, the biggest open pit gold mine in the world.

The European Bank for Reconstruction and Development will provide half the money and a group of 13 commercial banks are putting up the rest. EBRD said this was the first mining project finance it had provided, it was the first syndicated financing for the former Soviet Union and the first limited recourse private sector loan for Uzbekistan in any of the capital markets.

Newmont estimates the cost of the project, where its heap-leach technology will be used to extract at least 5m troy ounces of gold from old waste dumps at Muruntau over 16 years, will be \$150m. Production at the so-called Zarshah-Newmont joint venture is scheduled to start in early 1998 at the rate of 450,000 ounces a year, annual output over the life of the project is forecast to average 310,000 ounces.

Newmont's joint venture partners are Uzbekistan's state committee of geology and mineral resources and the Navoi Mining and Metallurgical Combinat, each with 25 per cent.

## Norske Shell says leaking tank shut down platform

By Karen Fosli in Oslo

NORSKE SHELL, the Norwegian subsidiary of the Royal/Dutch Shell group, disclosed yesterday that two small holes in one of seven storage tanks of the NR2bn (E180m) Draugen concrete oil platform had caused an estimated 1m tonnes of crude oil to leak into the Norwegian Sea.

The leak was discovered late on Sunday and production of 20,000 barrels a day was shut down for a period of 36-hours. Shell said that it had deployed the Seaway Concor diving vessel, which is equipped with a remotely-operated underwater robotic vehicle, to make video recordings of the leaking areas of the storage tank.

Turkmenistan, the gas-rich Central Asian republic, has awarded two tenders to western companies to explore and develop some of its oil-fields, one to Occidental Petroleum of the US and another to a US-Turkish consortium. Interfax news agency reported yesterday, writes Leyla Boulton in Moscow.

Occidental was reported to have paid a bonus of more than \$20m to develop the Barun oil

field, in western Turkmenistan, with known reserves of 35m tonnes.

A consortium called Oil Capital-Lapis Holding won the right, paying a bonus of \$30m, to develop offshore reserves in the Caspian Sea. A tender for another oil-field, Baza-Gelmez with reserves of 31m tonnes, was not awarded because interested companies needed more time to prepare their bids.

West Norwegian Gandsfjord in August 1991. Aker's shares were little affected yesterday on the Oslo bourse by the disclosure. A-shares closed down NRK50 to NRK150 to NRK90.

The Norwegian Petroleum Directorate, the country's oil industry watchdog, yesterday received a preliminary report

on the incident from Shell, but a final report will not be available until the underwater vehicle's inspections are completed.

Bad weather and water depth of 280m had made the inspections of the storage tank difficult, but not impossible, Shell said.

The leaking tank has been drained of oil and refilled with water.

Draugen's seven seabed tanks have capacity to store 1.4m barrels of oil, or about 11 days' production.

The platform came on stream on October 19 and is expected to achieve a plateau production rate of 90,000-95,000 barrels a day in the middle of next year.

## India expects cotton crop close to last year's record

By Kunal Bose in Calcutta

INDIA EXPECTS to harvest another bumper cotton crop of 13.5m bales (170kg each) during the season that began in September, only marginally down from last season's record.

"A 13.5m bale crop is only the beginning of the season forecast," said an official of the Eastern India Textile Mills Association. "As has always been the case in the past, the crop estimate will keep changing as the season progresses. Last year, the initial crop estimate was only 12m bales. But we finally ended up with a record production of 13.5m bales. All this happens because the country so far has not been able to develop a reliable crop forecasting system."

According to the government-owned Cotton Corporation of India, among the major cotton growing states in the country, Maharashtra is expected to record an output rise of 250,000 bales to 2.3m and Mad-

hya Pradesh's production is projected to be 200,000 bales higher at 1.2m. However, there will be a major crop loss of over 450,000 bales, to 1.8m, in Gujarat, where large areas suffered drought.

The cotton crop will be maintained in other major centres, like Punjab, Haryana, Andhra Pradesh, Karnataka and Tamil Nadu. The quality of the crop is reported to be satisfactory.

As India opened the season with comfortable stocks of nearly 3.3m bales and it is heading for a bumper crop, the government has announced the first instalment of export quota of 500,000 bales for 1993-94. Last year the country exported 1.3m bales out of total sanctioned quota of nearly 1.8m.

India releases cotton exports in stages, depending on the progress of the harvest. This policy attempts to ensure remunerative prices to growers and adequate supplies to textile mills. Indian mill consump-

tion in the current season is expected to be 11.5m bales and non-mill consumption 800,000 bales.

The organisations of growers and traders have found in the agriculture ministry a champion of freedom of cotton exports. According to the parliamentary committee on agriculture, the *ad hoc* export policy is not farmer-friendly and India should remove all controls on cotton exports. The committee believes there is scope, through improved productivity, to increase exports to 2m bales a year. India manages an average yield of only 270kg a hectare, compared with the world average of 800kg.

According to the International Cotton Advisory Committee, cotton export prices in the current season are likely to remain below average, even though imports are projected to increase by 200,000 tonnes to 8.1m tonnes. Latin American importers are expected to account for most of the rise.

## Protecting Earth's life-support system

UN scientists see 'biodiversity' as crucial to future food supply, writes John Madeley

A QUARTER of the Earth's plants and animals are in danger of extinction in the next 30 years, raising fears for food supplies for future generations, according to a recent report by the Food and Agriculture Organisation of the United Nations.

Global food production will have to increase by more than 60 per cent in the next 35 years, the organisation estimates, and "biodiversity" is essential for this. Yet about three-quarters of the genetic diversity of agricultural crops have been lost since the beginning of the century, says the FAO, "and the world is increasingly dependent on fewer and fewer crop varieties".

The world's population obtains about 90 per cent of its calories from 30 crop species, it says. Four plants - rice, maize, wheat and potatoes - account for 50 per cent of total caloric intake. Yet there are an estimated 75,000 potential food species in existence, many of them

in the tropical forests. While the introduction of high-yielding varieties of rice, wheat and maize, under the so-called "green revolution" has raised yields, it has caused the replacement of thousands of local varieties of those crops by a few, genetically very uniform varieties. That loss of biodiversity means less plant breeding material is available for the development of new strains of crops, the FAO warns.

If a disease wipes out a crop, it is considered vital to have new strains available for farmers so that output can be maintained. The organisation was one of the chief supporters of the green revolution in the 1960s, but it now stresses that "intensified food production can be achieved by the sustainable use of a broader range of species and genetic material".

"Biodiversity is the source of economic and food security," says the FAO's director-general, Mr Edouard Saouma. The world's richest nations contain

the least diversity, while the poorest countries have the richest reserves, "which underscores the interdependency of all nations".

Tropical forests and woodlands contain at least 50 per cent of all known plant and animal species, but are being destroyed at the rate of 15.4m hectares a year, the FAO estimates, causing reductions in the number of species. It believes only about 10 per cent of those forests are being managed in a way that will enable the output of timber to be sustained.

Properly managed tropical forests could provide both timber and non-wood products while safeguarding genetic resources. A number of studies have shown that harvesting non-timber products is more remunerative than logging trees or burning them down.

One study estimated that a hectare of forest on Mahana, Peru, produced fruits and rub-

ber worth \$700 a year. After deducting collecting and transport costs, net annual revenues to farmers were just over \$400 a year. If a farmer with a hectare of trees chopped them down, earnings would come to around \$1,000. In that situation, it therefore paid farmers to leave the trees standing and to harvest fruits and rubber from them to earn a regular annual income.

The FAO says the rate of extinction of animal breeds has increased dramatically in the past 100 years, mostly due to the highly specialised nature of modern livestock production. Animal production contributes about 30 per cent to the total global value of food and agriculture. About a fifth of existing breeds are at risk of extinction, the FAO estimates, with endangered breeds more likely to be in developing countries.

Although the world fish catch has more than quadrupled over the last 40 years, it is now under considerable pressure, with over-fishing and the

use of intensive modern technology having a damaging impact on many fish stocks. The catch in 1992 declined for the third year in a row, to just under 87m tonnes, compared with a record 100m tonnes in 1989.

The overall figures hide an even sadder decline in the fish caught at sea, the FAO says. In 1992, the marine catch was about 50m tonnes, down from about 60m tonnes in 1989.

Commercial fleets are driving some fish species close to biological extinction, destroying natural ecosystems such as coral reefs and seagrass beds. Climate change, could affect stocks of fish "in an unpredictable fashion", global warming could cause changes in the marine habitats and plankton that might lead to shifts in distribution and production.

The FAO plans a major conference on biodiversity in 1995. "Biodiversity is a life-support for the planet - cut it off and we will die," warns Edouard Saouma.

## WORLD COMMODITIES PRICES

## MARKET REPORT

London Commodity Exchange COFFEE and COCOA prices moved higher in the afternoon. Cocoa, after only a slightly steady morning, took off with a vengeance in late trading afternoon, the near March jumping £13 at one point to £1,027 a tonne, the highest second position's highest level since July, 1989. Dealers said the market was running little or no producer selling, which was helping to accentuate the rise. But they thought strong resistance was likely below £1,050. An absence of producer selling was also cited as a factor in coffee's continued advance, which took the January

position to \$1,296 a tonne at the close, up \$40. Base metal prices rallied from earlier lows during late trading at the London Metal Exchange. The three months delivery COPPER price rallied from \$1,630 a tonne on speculative buying and short-covering, touching \$1,640 before closing at \$1,634, down \$7 from Tuesday. The ALUMINIUM market found strong support on dips towards the \$1,050-a-tonne level for three months metal, which bounced to close at \$1,056.50, a tonne up \$6.50 on the day.

Compiled from Reuters

## London Markets

COFFEE (per 100 lb) FOB (Jan) \$1,296.00 (+0.28)  
Cocoa (per 100 lb) FOB (Jan) \$1,027.00 (+1.31)  
W.T.J. (100 lb) \$1,027.00 (+1.31)

WTJ (100 lb) \$1,027.00 (+1.31)  
WTJ (100 lb) \$1,027.00 (+1.31)  
WTJ (100 lb) \$1,027.00 (+1.31)

WTJ (100 lb) \$1,027.00 (+1.31)  
WTJ (100 lb) \$1,027.00 (+1.31)  
WTJ (100 lb) \$1,027.00 (+1.31)

WTJ (100 lb) \$1,027.00 (+1.31)  
WTJ (100 lb) \$1,027.00 (+1.31)  
WTJ (100 lb) \$1,027.00 (+1.31)

WTJ (100 lb) \$1,027.00 (+1.31)  
WTJ (100 lb) \$1,027.00 (+1.31)  
WTJ (100 lb) \$1,027.00 (+1.31)

WTJ (100 lb) \$1,027.00 (+1.31)  
WTJ (100 lb) \$1,027.00 (+1.31)  
WTJ (100 lb) \$1,027.00 (+1.31)

WTJ (100 lb) \$1,027.00 (+1.31)  
WTJ (100 lb) \$1,027.00 (+1.31)  
WTJ (100 lb) \$1,027.00 (+1.31)

WTJ (100 lb) \$1,027.00 (+1.31)  
WTJ (100 lb) \$1,027.00 (+1.31)  
WTJ (100 lb) \$1,027.00 (+1.31)

WTJ (100 lb) \$1,027.00 (+1.31)  
WTJ (100 lb) \$1,027.00 (+1.31)  
WTJ (100 lb) \$1,027.00 (+1.31)

WTJ (100 lb) \$1,027.00 (+1.31)  
WTJ (100 lb) \$1,027.00 (+1.31)  
WTJ (100 lb) \$1,027.00 (+1.31)

WTJ (100 lb) \$1,027.00 (+1.31)  
WTJ (100 lb) \$1,027.00 (+1.31)  
WTJ (100 lb) \$1,027.00 (+1.31)

WTJ (100 lb) \$1,027.00 (+1.31)  
WTJ (100 lb) \$1,027.00 (+1.31)  
WTJ (100 lb) \$1,027.00 (+1.31)

WTJ (100 lb) \$1,027.00 (+1.31)  
WTJ (100 lb) \$1,027.00 (+1.31)  
WTJ (100 lb) \$1,027.00 (+1.31)

WTJ (100 lb) \$1,027.00 (+1.31)  
WTJ (100 lb) \$1,027.00 (+1.31)  
WTJ (100 lb) \$1,027.00 (+1.31)

WTJ (100 lb) \$1,027.00 (+1.31)  
WTJ (100 lb) \$1,027.00 (+1.31)  
WTJ (100 lb) \$1,027.00 (+1.31)

WTJ (100 lb) \$1,027.00 (+1.31)  
WTJ (100 lb) \$1,027.00 (+1.31)  
WTJ (100 lb) \$1,027.00 (+1.31)

WTJ (100 lb) \$1,027.00 (+1.31)  
WTJ (100 lb) \$1,027.00 (+1.31)  
WTJ (100 lb) \$1,027.00 (+1.31)

## MILK, SUGAR &amp; LBS (cents/lb)

Milk 10.45 10.35 10.45 10.35  
Sugar 11.00 10.90 11.00 10.90

Milk 10.45 10.35 10.45 10.35  
Sugar 11.00 10.90 11.00 10.90

Milk 10.45 10.35 10.45 10.35  
Sugar 11.00 10.90 11.00 10.90

Milk 10.45 10.35 10.45 10.35  
Sugar 11.00 10.90 11.00 10.90

Milk 10.45 10.35 10.45 10.35  
Sugar 11.00 10.90 11.00 10.90

Milk 10.45 10.35 10.45 10.35  
Sugar 11.00 10.90 11.00 10.90

Milk 10.45 10.35 10.45 10.35  
Sugar 11.00 10.90 11.00 10.90

Milk 10.45 10.35 10.45 10.35  
Sugar 11.00 10.90 11.00 10.90

Milk 10.45 10.35 10.45 10.35  
Sugar 11.00 10.90 11.00 10.90

Milk 10.45 10.35 10.45 10.35  
Sugar 11.00 10.90 11.00 10.90

Milk 10.45 10.35 10.45 10.35  
Sugar 11.00 10.90 11.00 10.90

Milk 10.45 10.35 10.45 10.35  
Sugar 11.00 10.90 11.00 10.90

Milk 10.45 10.35 10.45 10.35  
Sugar 11.00 10.90 11.00 10.90

## LONDON METAL EXCHANGE

Aluminium 98.7% purity 5 per tonne  
Copper 99.95% 5 per tonne

Aluminium 98.7% purity 5 per tonne  
Copper 99.95% 5 per tonne

Aluminium 98.7% purity 5 per tonne  
Copper 99.95% 5 per tonne

Aluminium 98.7% purity 5 per tonne  
Copper 99.95% 5 per tonne

Aluminium 98.7% purity 5 per tonne  
Copper 99.95% 5 per tonne

Aluminium 98.7% purity 5 per tonne  
Copper 99.95% 5 per tonne

Aluminium 98.7% purity 5 per tonne  
Copper 99.95% 5 per tonne

Aluminium 98.7% purity 5 per tonne  
Copper 99.95% 5 per tonne

Aluminium 98.7% purity 5 per tonne  
Copper 99.95% 5 per tonne

Aluminium 98.7% purity 5 per tonne  
Copper 99.95% 5 per tonne

Aluminium 98.7% purity 5 per tonne  
Copper 99.95% 5 per tonne

Aluminium 98.7% purity 5 per tonne  
Copper 99.95% 5 per tonne

Aluminium 98.7% purity 5 per tonne  
Copper 99.95% 5 per tonne

## NEW YORK

Gold 371.75-372.25  
Silver 37.50-37.60

Gold 371.75-372.25  
Silver 37.50-37.60

Gold 371.75-372.25  
Silver 37.50-37.60

Gold 371.75-372.25  
Silver 37.50-37.60

Gold 371.75-372.25  
Silver 37.50-37.60

Gold 371.75-372.25  
Silver 37.50-37.60

Gold 371.75-372.25  
Silver 37.50-37.60

Gold 371.75-372.25  
Silver 37.50-37.60

Gold 371.75-372.25  
Silver 37.50-37.60

Gold 371.75-372.25  
Silver 37.50-37.60

Gold 371.75-372.25  
Silver 37.50-37.60

Gold 371.75-372.25  
Silver 37.50-37.60

Gold 371.75-372.25  
Silver 37.50-37.60

## HEATING OIL 42,000 US gal, center US gals

Heating oil 42,000 US gal, center US gals

Heating oil 42,000 US gal, center US gals

Heating oil 42,000 US gal, center US gals

Heating oil 42,000 US gal, center US gals

Heating oil 42,000 US gal, center US gals

Heating oil 42,000 US gal, center US gals

Heating oil 42,000 US gal, center US gals

Heating oil 42,000 US gal, center US gals

Heating oil 42,000 US gal, center US gals

Heating oil 42,000 US gal, center US gals

Heating oil 42,000 US gal, center US gals

Heating oil 42,000 US gal, center US gals



# SOUTH AFRICA: Open for investment

Thursday November 18 1993

## IN THIS SURVEY

### Shaking off the legacy of apartheid

No country in Africa has a legacy that can compare with the traumatic impact of apartheid, but none came to independence with the array of resources that will be at the disposal of the government that will be elected next April, under the constitution agreed yesterday. In this survey of the most powerful economy on the continent, FT writers assess prospects for investment.

- Who's who in the new South Africa
- A convenient cohabitation
- ANC way ahead in the polls

Page 26

- Business sits on its hands and waits
- From civil war to consensus

Page 37

- Business exhibits starchy-eyed optimism
- Expectations may be too great
- Retailers are wooing black consumers
- The financial rand is deflated but it's 'still necessary'

Page 38

- The view from abroad: Capital markets, United States, Japan, Germany and France
- Johannesburg Stock Exchange takes a quantum leap
- The unthinkable achieved

Page 39

- Launch pad for a continent
- South Africa searches for international recognition
- Tourism: playground for visitors

Page 40

Africa editor: Michael Holman  
Editorial production: Ray Terry  
Illustrations: Joe Cummings

## A new nation starts to take shape

Nearly four years after Nelson Mandela's release, South Africa begins a fresh era. Patti Waldmeir reports

YESTERDAY South Africa broke the twisted mould of apartheid, and cast away the

After decades spent fighting the tide of history, which submerged other racist regimes long ago, South Africa yesterday opted to join the modern world. It can now play a full role at the United Nations, rejoin the Commonwealth, become a member of the Organisation of African Unity, and play a much-needed, constructive role in the development of southern Africa and beyond.

Yesterday's agreement on a post-apartheid constitution is the first irrevocable step on the path to full democracy, but it is only a first step. The next few months and years will show whether South Africa's tenure as a democratic nation will be nasty, brutish and short, or stable, happy and prosperous; whether it will substitute black domination for white repression; whether it will defy the logic of divided societies worldwide, and nurture true multi-ethnic democracy.

Though the mould of apartheid has been broken, Africa provides other unfortunate models for the new state: tyrannical regimes which abused power, crushed dissent and lay waste whole economies through maladministration, corruption and theft.

South African politicians, black and white, bridle at the comparison: Finance Minister Derek Keyes offers the consensus view when he insists that South Africa "will be totally different from the rest of Africa. It always has been and it always will be".

Economically, that is obviously so. Mr Keyes points to South Africa's clear superiority in terms of "indigenous capital", both human and financial. The new leaders will manage the continent's most powerful economy, with gross domestic product equal to 76 per cent of sub-Saharan Africa's gdp, with an economic hinterland which stretches as far north as Zaire, generating half of Africa's electricity. Even in broader international terms, it compares well: with a well developed stock market, banking sector, and body of company law, South Africa offers more to the investor than, for example, eastern Europe; and with foreign debt at US\$17.5bn, or 15 per cent of gdp, it is under-

rowed by any standard.

In political terms, too, South Africa is different. In 1967, when Ghana became the first African nation to gain independence from Britain, Kwame Nkrumah inherited a position of largely unfettered power. But South Africa's first black president - likely to be the African National Congress leader, Nelson Mandela - will find his room for manoeuvre far more circumscribed, in law, and more importantly, in fact.

"South Africa is too big for the ANC," says one ANC member who bemoans the complexity of a society which imposes manifold constraints on the party of government: he believes they will inhibit the ANC's ability to transform South Africa virtuously; others welcome these constraints as curbs to abuse of power. But all would agree that South Africa does not fit the classic African mould of a society which easily falls prey to bad government.

Strong interest groups counterbalance the power of government: chief among them is a strong, diversified and battle-hardened corporate sector; the 1.2m-strong labour federation Cosatu, historically allied to the ANC, has recently begun flexing its independent muscle, and is well organised and powerful enough to play the role of democracy's watchdog. The highly politicised and motivated township "civics", or community associations, could also prove an important check on government power: for South Africa's "masses" are not the fawning crowd which greeted Kwame Nkrumah, African liberator; they are demanding, well organised, and used to fighting their political corner.

The list of powerful interest groups outside the ANC's sphere goes on and on: the 1.2m strong civil service is dominated by Afrikaners, who are scarcely natural allies of the ANC. The defence force, though professional and committed to supporting the government of the day, is also Afrikaans-dominated, as is the police.

Last, and arguably least of the factors constraining an ANC government, is the constitution agreed yesterday by the main political parties. That constitution was meant to prevent majority domination through power sharing: it was supposed to guarantee democ-

cracy by ensuring that the minority losers in any majority-rule election would still enjoy a powerful say in government. It falls some way short of so doing: minorities will be represented in government, with even the party earning 5 per cent of the national vote entitled to a seat in cabinet; but the power of minority parties in cabinet is precarious.

The ANC, which will have both a president and a deputy president, will have its own way on any disputed decision. And though it has promised regular consultation with the second deputy president, drawn from the second largest party (probably Mr F.W. de Klerk, current president), he will have no statutory powers to frustrate Mr Mandela's will.

The constitution fails to deliver other checks and balances which the ruling National Party had insisted were essential. The party's 1991 constitutional proposals called for political power to be divided between three tiers of government - central, regional and local - with each tier to have "original and entrenched authority with which other tiers of government may not interfere".

In fact, central government retains wide powers to "interfere" with regional governments: the constitution authorises central government to intervene in terms so vague (to impose uniform national norms and standards, to ensure proper regulation, and where there are implications for national security or economic policy) as seriously to undermine regional autonomy. And with regions barred from imposing taxes without central government approval, it is hard to accept Mr de Klerk's claim that the new state will be "federal".

National Party negotiators believe that they will not need entrenched constitutional provisions to play a powerful role in restraining the ANC: they believe the ANC's assurances that it does not wish to govern alone (and does not believe it could do so effectively); and they judge their electoral strength will give them an important say in cabinet, though only if they are able to better their poll showing of 11 to 13 per cent.

But clearly, the National Party has settled well below its bottom line on crucial issues, probably, it had no choice. As



President F.W. de Klerk (left) and African National Congress leader Nelson Mandela (right) yesterday reached agreement on a new constitution. Still to give his consent is Chief Mangosuthu Buthe (centre) head of the Inkatha Freedom Party (IFP). Leading figures in South Africa's history in the background (anti-clockwise) include Shaka (top left), who united a number of tribes into the mighty Zulu nation; Jan van Riebeeck, founder of the white settlement in 1652; Jan Smuts, prime minister 1919-24 and 1939-48, who was one of the founders of the UN; Albert Luthuli (1898-1967), president of the ANC during the heyday of apartheid in the 1950s and 1960s; Hendrik Verwoerd, prime minister 1958-66, architect of apartheid; and Paul Kruger, president of the Transvaal republic during the Boer War (1899-1902).

a minority government whose power diminishes by the day, negotiators calculated that a deal done now would be preferable to that available next month or next year. And whatever the shortcomings of the constitution, agreement is better than continuing deadlock. Though it is not strong enough, it is far from liberal, and should help to reinforce democratic forces.

But if South Africa does escape some of the more grotesque abuses of power for which Africa is famous, it is scarcely likely to become a prosperous liberal democracy overnight.

The new bill of rights enshrines tough emergency powers which can be used to

restore stability after the April 27 elections. Agreement seems to exist between the ANC and NP that restoring stability, through temporary repression, is the highest post-election priority.

According to this scenario, democracy will be a temporary casualty while the new government pursues stability and economic development; and if it succeeds in restoring law and order without repeating the oppression of the past, it will be widely popular with an electorate (white and black) fed up with crime and violence.

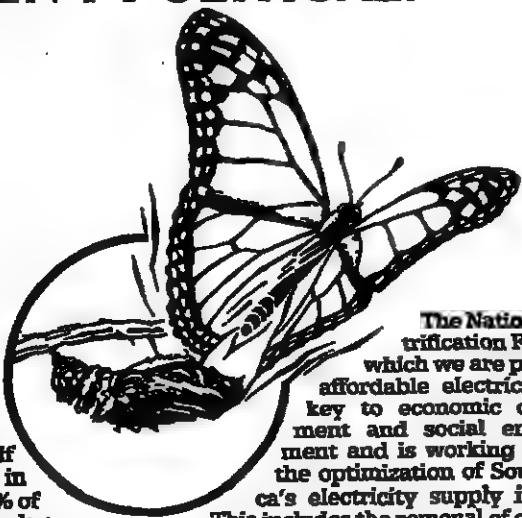
Much will depend on whether the mainly Zulu Inkatha Freedom Party of Chief Mangosuthu Buthe can be persuaded to participate

in next year's elections: though he has made clear that he rejects yesterday's constitution, he could decide he has more to gain by fighting rather than boycotting an election. If he actively opposes the poll, the security situation could become untenable, especially if the white right wing, now in tactical alliance with Inkatha, also opposes the election. The ANC and NP must guarantee that there is critical mass at the political centre, and that the crackdown need only suppress the lunatic fringe. If Inkatha and the right wing, with their numbers and their firepower, are to be suppressed in unison, stability may be unobtainable.

But in the end, it is economics - and not politics - which will seal South Africa's fate. For yesterday's constitution marks a decisive shift in electoral power from the "haves" to the "have-nots" of South African society. Popular expectations will soon strain the intentions of even the most benevolent government; at that point, it must either give in to populism, or suppress it.

The latter now seems most likely: the new South Africa will start with a hefty dollop of the old. That will be unfortunate, but bearable; what will destroy South Africa's democratic prospects forever is failure to deliver a better economic deal to the masses. It is a tall order.

## SOME OF THE MOST SIGNIFICANT CHANGES IN SOUTH AFRICA AREN'T POLITICAL.



Eskom, South Africa's national electricity utility, generates more than half the electricity consumed in Africa. And more than 90% of that is used in its local market.

According to Tokyo Electric Power's 1991 Statistical Review, it is the world's fourth largest supplier of electricity in terms of both sales and generating capacity. Eskom's treasury was named one of the world's top ten in the recent International Risk Management Awards held by The Economist Intelligence Unit and Envor Risk Management Consulting. And the UK Electricity Association ranked Eskom's electricity price second lowest in the world.

We are, understandably, rather proud that our business performance has not gone unnoticed. But South Africa is in transition, with 60% of the population as yet without electricity.

The National Electrification Forum, of which we are part, sees affordable electricity as a key to economic development and social empowerment and is working towards the optimization of South Africa's electricity supply industry. This includes the removal of obstacles to extending commercially viable electrification. But neither we nor South Africa's other electricity suppliers have been idle. In 1991, we brought electricity to another 250,000 South Africans. In 1992, to a further 1,000,000. And the estimate for 1993 is another 1,500,000.

Which is why, in September this year, we were rather proud when the Johannesburg newspaper, Business Day, gave us their 1993 Business Achievement Award for the way we have responded to adversity, marketed electricity, transcended politics and won the confidence of the community. Which, we like to think, is their way of saying that we're giving wing to the people's hopes and dreams.



The power behind developing South Africa.

For further information about electricity supply in South Africa, please fax: Alliance de Bank in London (+44 71 550-4716); Paracelsus Bank in Frankfurt (+49 69 74 94 35) or Kevin Morgan in Johannesburg (+27 11 800-4350).

## Standard Bank London

### Your Gateway to Africa

Standard Bank London Limited offers specialised financial services to assist international companies maximise their returns on investments in South Africa and the African continent.

As a wholly owned subsidiary within the Standard Bank Group of South Africa, the bank has a strong regional focus and offers specialised banking, treasury, corporate and project finance services, including active participation in the South African currency markets, South African equities, derivatives and capital markets. It also participates in the African, Latin American and Eastern European Sovereign Debt markets and the Global Value Impaired Corporate Debt markets.

Standard Bank London is registered as a market maker on SEAQ International in South African stocks and trades in ADR issues during European and US market hours. The bank is an active market maker in South African domestic bonds with prices quoted in any major currency.

### For information and prices call:

Emerging Markets Group: (071) 929 0999  
Foreign Exchange & Money Markets: (071) 626 3333 Reuters Dealing: STDL  
Equities Group: (071) 929 0000  
South African Capital Markets: (071) 929 1222  
Value Impaired Assets Group: (071) 815 3120

Information Pages Reuters (Page STDXY) Bloomberg (Page SGL)

### Standard Bank London is your financial gateway to Africa

Standard Bank London Limited, Cannon Bridge House, 25 Dowgate Hill, London EC4R 2SB

Telephone (071) 815 3000 Facsimile (071) 815 3099

Issued by Standard Bank London Limited, a member of the Securities and Futures Authority and the London Stock Exchange



The investment services described above are not available to private customers



## SOUTH AFRICA: OPEN FOR INVESTMENT

## POLITICS

Patti Waldmeir identifies who's who in the new South Africa

## Power people in waiting

AFTER nearly four years in the news, everyone knows Messrs Nelson Mandela and F.W. de Klerk, who are likely to remain the two most important men in South African politics. Their relationship will change: Mr Mandela is overwhelmingly likely to take over as president, while Mr de Klerk will be relegated to the status of second deputy president, behind another deputy from the ANC who will act as de facto prime minister to Mr Mandela. But their strengths and weaknesses will remain the same, however their titles may change: to the outside world, they are largely a known quantity.

But the new government will be influenced by a host of politicians whom outsiders know either less well, or not at all. Some have emerged from the trade union movement, some from the ranks of the African National Congress in exile, some from its guerrilla wing and others from the enlightened wing of the National Party. Others still come from Inkatha, or the corporate world.

Predicting who will be who in the new South Africa is inevitably an inexact science: party, it will depend on the scramble, only now beginning, to reach the top of each party's electoral list (voters will not choose individual members of parliament, but will vote a straight party list). Lists will be chosen by parties themselves: in the case of the ANC, after strong input from the membership.

But some individuals seem almost certain to rise to the top of the pile, whether electorally, or by exercising influence outside parliament. They are:

Thabo Mbeki: recently promoted to the post of ANC national chairman, Mr Mbeki could well fill the post of first deputy president under Mr Mandela. (This post might naturally have gone to Cyril Ramaphosa, ANC secretary general, but he insists he does not want it). Mr Mbeki, for many years the head of the ANC's department of interna-



Roelf Meyer: from the ranks of enlightened nationalists



Thabo Mbeki: could well fill the post of first deputy president



Cyril Ramaphosa: insists he will not enter parliament

tional affairs, is urbane, moderate, articulate and the darling of the business community.

Son of one of the ANC's most famous elder statesmen - radical Govan Mbeki, 83, who is now retired - Mr Mbeki was born in 1942 and took an MA in economics from Sussex University. During nearly 30 years in exile, he developed the kind of middle-class tastes which reassure whites, and cheer the hearts of foreign investors: neatly dressed and puffing on the ubiquitous pipe, Mr Mbeki speaks the language of the monied classes while mysteriously retaining grassroots support at the same time.

Cyril Ramaphosa: No less charming than Mr Mbeki - and becoming a rapid convert to South Africa's unrivalled version of the "good life" - Mr Ramaphosa insists he will not enter parliament, but will stay to build the ANC for the crucial, post-liberation elections in 1999. Mr Ramaphosa had a solid popular base in the National Union of Mineworkers which he left to become ANC secretary-general in 1991 but has spent almost all his time since locked in negotiations with the government and other parties. His image has suffered as talks have dragged on, and he risks being blamed for concessions made; but the truth is that this witty 41-year-old, a consummate negotiator, has outmanoeuvred the government on many crucial issues, and delivered a deal which favours the ANC. His

economic views lean toward the socialist - though he keeps them hidden - and he is likely to prove effective in building the ANC's constituency.

Derek Keys: Mr Mandela can send no more powerful signal to foreign investors than to keep Mr Keys on as finance minister in the new government. As National Party minister of finance, Mr Keys, 63, has trodden carefully with the anti-apartheid opposition, bringing them along with him every step of the way to a new debt rescheduling deal, a joint pitch on foreign investment, and a commitment on fiscal discipline to the International Monetary Fund. After 30 years as one of South Africa's top businessmen, Mr Keys is a technocrat rather than a politician, and may well survive into the new era. Likewise, his respected counterpart at the South African Reserve Bank (central bank), Chris Stals, who has done much to tame inflation and restore international financial credibility.

Roelf Meyer: chief government negotiator, Mr Meyer, 46, hails from the ranks of the enlightened nationalists. He and colleagues Leon Wessels, Dawie de Villiers and Sam de Beer see a bright multiracial future where whites will continue to exercise influence by virtue of their strength in the civil service, the economy and the security forces.

Joe Slovo, chairman of the

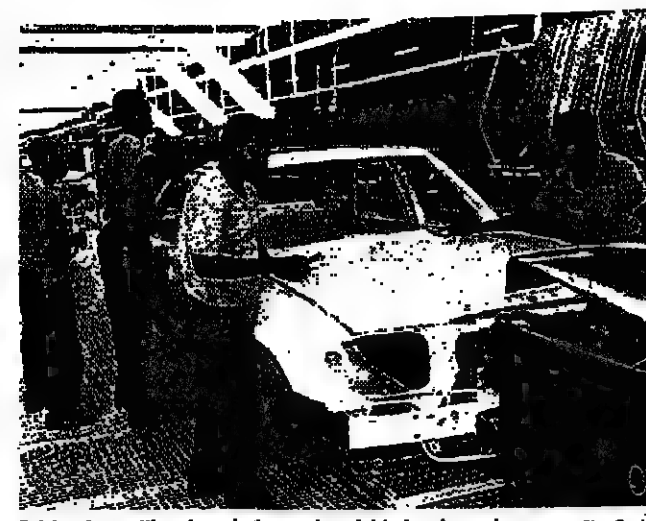
South African Communist Party, has arguably done more to deliver a moderate constitutional deal than anyone apart from Mr Mandela himself. Despite his socialist economic views, he is likely to be a force for pragmatism for some time to come. Jacob Zuma, one of the few leading Zulus in the ANC, is almost guaranteed a top position. Sober and reasonable, he has handled delicate negotiations with Inkatha well. Tokyo Sekwale, voted the sexiest man in Johannesburg in a recent radio poll, is a charismatic populist of far more radical views; he is likely to try to push ANC economic policies in a radical direction. Sam Shilowa, recently elected general secretary of the largest union federation, Cosatu, will fight for union independence under the new government, and will not be shy to use his power if government forgets its commitments to the masses. Moses Mayekiso, head of the South African National Civic Organisation, will also prove a radical focus.

Last and most difficult to assess, Chief Mangosuthu Butheles, leader of the Inkatha Freedom Party, will play a principal role from within or without the new government. With his irritable and unpredictable personality, he is likely to prove difficult to manage, whether he accepts or rejects the deal. Only time will tell which he will choose.

Patti Waldmeir

## INDUSTRIAL RELATIONS

## A convenient cohabitation



Driving force: the struggle for worker rights has begun

grounds as well as race. Beyond that, they require affirmative action to purge the legacy of apartheid.

Neither of these is yet much of an issue for large employers, particularly multinationals which have been running ahead of the game in promoting blacks. Unsurprising discontent is being heard from some white staff in such companies, but rather more acute workplace difficulties may surface next year if black unions decide that, even so, the pace of change is not to their satisfaction.

What is likely to set the ANC and Cosatu apart is wage restraint. This would be part of "co-determination", currently the most commonly bandied catch phrase in industrial relations. Mr Shilowa professes not to know what it means - and fairly so, because its usage seems to vary.

In the public sector, the implication from the ANC government-in-waiting is that black workers are already substantially better off than the 45 per cent or so who are without any formal employment. Thus they should accept wage rises next year substantially below the country's 9 per cent inflation rate so that cash can

be channelled to upliftment programmes elsewhere. In return, unions should be given a say in reconstruction and development planning. Private sector companies, equally loath to make inflationary pay awards, are here and there offering seats on the board for labour representatives to instil a sense of participation in decision making. From Cosatu's point of view, though, these are often band-aids rather than ballast for the cause.

Some sort of accommodation between labour and capital is necessary to set the new dispensation on course; all but the most radical agree, but attempts at cosmetic corporatism are being treated with suspicion. Labour activists are demanding that a strategic view be taken across each industry, with retrenchments and new entrants alike being given equal scrutiny. To take three examples:

At the National Union of Metalworkers of South Africa (Numsa) - one of Cosatu's two largest member unions along with the National Union of Mineworkers - Mr Berrie Pampuroff maintains that some of the country's vehicle assemblers are already matching the

cost structures of plants in Asia. But, he adds, the three dozen model variants for new cars are too numerous for the market, and further productivity improvements may depend on following Australia in shedding whole ranges.

Never mind cars, Mr Shilowa, arguing for an audit of where investment is most needed, asks simply: "Why don't we produce bicycles?" All are imported, most of them from Taiwan.

Charity shops selling second-hand clothes donated from Japan and North America have at times been occupied by protesting members of the South African Clothing and Textile Workers Union (Sactu) on the grounds that even such outlets might erode their jobs. The union is now, however, concentrating on the real threat to employment in its industry posed by prospective Gatt reductions in import tariffs.

What the three have in common is a recognition that solutions to labour questions within specific companies will not in themselves secure, let alone increase, jobs. On imports, there is an acceptance that tariffs will have to be lowered in many instances, but unions argue that this should happen only after inefficiencies have been sorted out and an upgrade technology run down by sanctions and a general decline in capital spending.

Such talks would happen on a tripartite basis among employers, unions and government, and foreign investors would have to accept that they did not have an unfettered right to manage, Mr Shilowa makes clear.

"We want to be involved in industrial restructuring," he says. "To improve productivity, one has to feel a sense of ownership."


He offers some assurances: unions would keep their side of the bargain and could not justify breaking a wage agreement within its lifespan. But any other grievances which surfaced would be dealt with as Cosatu saw fit. "If co-determination means we are prepared to work with employers - yes. If it means us entering into social pacts without being allowed to strike - no."

Gordon Cramb

This announcement appears as a matter of record only

## Leaders in M&A and Equity Financings for South African Companies


Bookrunning lead-manager for  
Liberty Life Association of Africa  
Limited



**LIBERTY LIFE**

Liberty Life  
raised US\$134 million  
in its euro-equity offering  
October 1991

Bookrunning lead-manager for  
Sappi Limited



**sappi limited**

Sappi  
raised US\$236 million in its  
International equity offering  
June 1992


Financial adviser to Royal  
Corporation Limited



**Del Monte**

Del Monte Foods International  
Limited  
has been acquired by  
Royal Foods Limited  
for £345 million  
December 1992

Financial adviser to  
Anglo American Corporation  
of South Africa Limited



**Anglo American Corporation**

transferred the major part  
of its international assets to  
Minoro Société Anonyme  
for US\$1.4 billion  
September 1992

## S.G. WARBURG

S.G. Warburg Group plc  
London, New York, Tokyo, Hong Kong, Kuala Lumpur, Lisbon, Luxembourg, Madrid, Melbourne, Milan,  
Amsterdam, Antwerp, Bangkok, Boston, Chicago, Frankfurt, Geneva, Hong Kong, Kuala Lumpur, Lisbon, Luxembourg, Madrid, Melbourne, Milan,  
Montreal, Moscow, Paris, Seoul, Singapore, Sydney, Taipei, Toronto, Vancouver, Warsaw, Wellington, Zurich  
Incorporated in the Netherlands and S.G. Warburg Securities Ltd, members of the SFA

SOUTH AFRICA'S first elections are likely to be dominated by the issue of liberation from apartheid, and as the primary party of liberation, the African National Congress (ANC) can count on a large "vote of thanks" from black South Africans.

With the widely respected Mr Nelson Mandela as leader, the ANC is expected to win the largest share of the vote - recent opinion polls have shown its support at between 46 and 58 per cent, though pollsters believe a two-thirds vote for the ANC is possible if many of the 35 per cent undecided voters choose not to vote at all (an outcome which would favour the ANC, whose voters are more motivated).

ANC policies are not likely to exert a significant influence on voting patterns in the first elections; opposition will come from those who accuse the ANC of involvement in violence, or from those who view the organisation as Khosa-dominated (many top ANC officials belong to the Khosa tribe). The ANC's stated goal is to create a non-racial multi-party democracy with a mixed economy.

### Patti Waldmeir on the political parties

## ANC way ahead

**National Party**  
The new multi-racial National Party appeals primarily to ethnic minorities such as whites, Coloureds and Indians, though it may also win a substantial number of votes from blacks who fear domination by the ANC, or who yearn for law and order.

The National Party's share of recent opinion polls has fallen as low as 11 per cent though it seems likely that this represents a protest vote which could disappear. Most Afrikaners, along with most other whites, are likely to vote for the National Party, along with a large share, perhaps a majority, of Coloureds and Indians. The party's policy is similar to that of the ANC: multi-party democracy with a free enterprise economy (probably freer than that envisaged by the ANC), but the National Party also pledges to fight for minority rights.

**Inkatha Freedom Party**  
Primarily a Zulu party based in Natal, the IFP can probably also claim substantial white support in its regional base. The IFP scores poorly in opinion polls (9 per cent) which focus on towns. However, IFP support is concentrated in rural Zululand and in townships where violence makes polling difficult.

The IFP, like the other two parties, supports multi-party democracy and free enterprise, but believes in strong regional government. It is likely to fight the election on a law and order ticket.

**Conservative Party**  
The white-supremacist Conservative Party gained 800,000 white votes in the 1992 referendum though its support has certainly waned since then.

Still, it represents the only home for whites who reject the new South Africa, and wish to

cast a protest vote. It seems unlikely to win a major share of the vote nationally, and may not even win a majority of Afrikaners.

**Democratic Party**  
South Africa's liberal party, the Democratic Party will be lucky to get the 5 per cent of the national vote required for a seat in the cabinet. Though it, too, fought apartheid through the decades, the DP is likely to reap no liberation bonus. Viewed as a weak party, it has no obvious constituency except affluent whites in Johannesburg and some Coloureds and blacks.

**Pan Africanist Congress**  
This ultra-radical black party scores in low single figures in opinion polls. It is likely to fare badly in the first election, although its policy of rejecting accommodation with whites could well become more popular, particularly among young unemployed black South Africans, if the first post-apartheid government fails to deliver immediate fruits of victory. The PAC is a socialist party and its policies are basically pro-black and racist.

## THE SOUTH AFRICAN CONNECTION



Murray & Roberts is the leading industrial force on the African continent, satisfying engineering-related customer requirements through innovation and integrity.

A formidable combination of complementary businesses in Engineering, Manufacturing, Construction, Services, Materials and Properties reflects M&R's stature as a major player.

The Group has shown dramatic advances in recent years, justifying its blue chip performance on the Johannesburg Stock Exchange. After more than 90 years in business and with a working team of over 45 000 employees, Murray & Roberts is committed to long term growth and development.

Visit personally or we will supply information on over 150 companies represented at our Trade Centre.



### MURRAY & ROBERTS

Trade Centre



## SOUTH AFRICA: OPEN FOR INVESTMENT

## THE ECONOMY

The recession is ending, inflation is in single figures, but many hurdles remain, writes Tony Hawkins

## Business is sitting on its hands and waiting

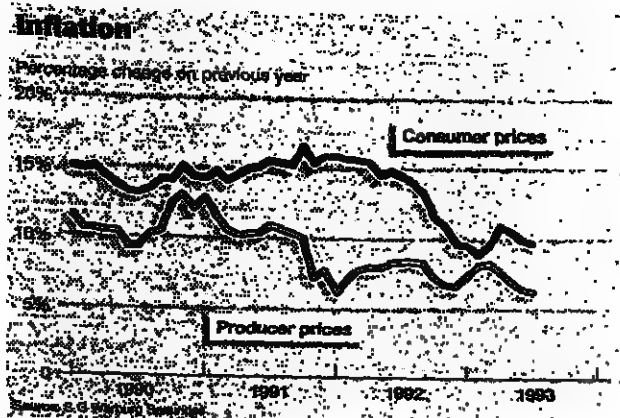
BARRING dramatic political setbacks, the worst is past for the South African economy.

In the closing months of 1993, the country is beginning to emerge from its longest ever recession, with economists predicting marginal GDP growth of around 0.5 per cent this year, accelerating gently to around 1.5 per cent to 2 per cent in 1994. Thus far, the recovery is mainly attributable to the rebound in agriculture from last year's drastic drought, with mining and manufacturing remaining in the doldrums. But from next year all sectors of the economy should start to benefit.

The policy environment is markedly friendlier than in the 1980s. Corporate taxes have been cut, inflation is in single digits (9.7 per cent forecast for 1993) for the first time in 20 years, a new tariff structure is about to be launched and both real wages and real interest rates have started to fall.

The balance of payments remains a problem area as capital outflows continue and Pretoria is committed to repay over \$1bn annually for the next eight years. Bankers and stockbrokers say the country is underborrowed - which is, with a foreign debt of \$17.3bn or 15 per cent of GDP - leaving scope to refinance previous commitments. But such rollovers merely provide a breathing space rather than a solution. This suggests that - in the absence of strong export growth - there will be little room for abandoning the financial and liberalising exchange controls, at least until 1995.

The strength, and duration, of the upturn will depend on three main factors: the new administration's ability to restore confidence to a badly mauled business sector; developments in the global economy, especially the commodity price cycle; and the economic policy framework that evolves in the "new" South Africa. There are grounds for cautious optimism on all three counts. A reduction in the violence and general acceptance of the election results, would do wonders for business morale, simultaneously opening the door to a strong upturn in public works spending on housing, electrification and roads. On the policy front, finance minister Derek Keys has managed through the



National Economic Forum to put together a middle-of-the-road consensus to secure agreements on resolving the debt standstill, an \$850m IMF loan, future relations with the World Bank and the crucial GATT Uruguay Round submission that will liberalise and streamline South Africa's tariff structure.

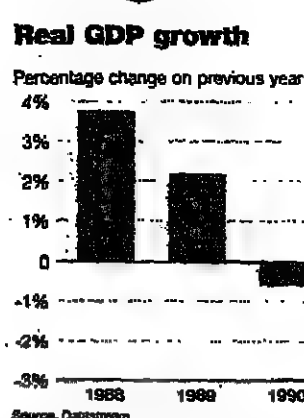
Disconcerting though the latest EC and Japanese numbers may be, South African economists are modestly confident that the commodity cycle has done its worst and that demand and prices for many of the country's key exports - especially gold - will recover in 1994-95. Even so, the upturn is going to be relatively limp through next year, as investors and businessmen sit on their hands until the elections are out of the way and they have some idea of who will be holding the reins of economic power.

Many hope and expect that Mr Keys will retain the finance portfolio, while Dr Chris Stals, whose term as governor of the South African Reserve Bank expires next year, and whose tough monetarism has done so much to reduce inflation, fiscal policies notwithstanding, will be reappointed.

Continuation of the Keys-Stals double-act would certainly calm business and banking nerves, abroad as well as at home, providing much-needed continuity and stability. But whether the ANC is ready to allow whites to retain control over key economic manage-

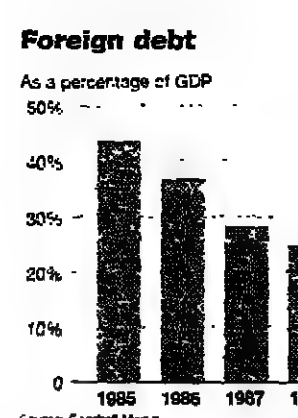
ment decisions is unclear. Mr Mandela and his close aides may be happy with such a transitional arrangement - for two or three years - but already there are demands lower down the ANC hierarchy for some relaxation of monetary and fiscal policy.

Fiscal policy is going to be crucial. While some in the ANC argue moderation, insisting that large tax increases are not necessary, this begs the \$64,000 question - how is the country to fund the proposed social upliftment and job-creation programmes? Professor Dennis Davis, an ANC tax adviser, has suggested increased estate duties along with differential rates of VAT so that some basic necessities can be zero-rated while higher rates are applied to luxuries. Some rationalisation too of tax-breaks seems probable thereby raising the effective rate of corporate tax - from around 30



per cent at present - while leaving the basic rate unchanged at 40 per cent. One senior ANC economist, Mr Tito Mboweni, has ruffled feathers with his suggestion of a once-off "reconstruction levy," though this has since been played down.

ANC economists believe there is scope to fund upliftment programmes by restructuring government spending. This is questionable; the "peace dividend" from defence cutbacks has been largely siphoned into increased spending on the police, and in a country where crime levels seem destined to remain uncomfortably high, there is little room for savings. Nor is there going to be any "apartheid dividend" since the elimination of wasteful, duplicative spending on social services for blacks and whites, will be offset by a larger public service and the need to establish



regional governments and structures. Mr Keys himself believes there is likely to be a net increase rather than saving, and sees his job as minimising that "bump."

One of the conditions of the IMF loan is a reduction in the budget deficit to 6 per cent of GDP in 1994-95, down from the 8.8 per cent forecast for the current year. Mr Keys says that 2 per cent of this represents public sector investment spending, while 2.5 per cent is needed to build up the civil servants pension fund in terms of already-announced political guarantees. He hopes to achieve savings by eliminating the remaining 1.5 per cent of "discretionary" deficit, but it is hard to square his plans with the social upliftment goal.

It has been estimated that racial parity in social service spending would cost almost a quarter of GDP, with education alone requiring 15.4 per cent,

more than double the 7.3 per cent provided in 1993-94. Indeed, a "parity budget" would mean shifting 10 per cent of GDP into the social services budget from a budget total of 28 per cent (excluding debt-service expenditure). Since such a target is out of reach, the likely implication is that the ANC's sweetness and light on the tax front will fall foul of political realism on one hand, and the need to deliver some form of liberation dividend on the other. Cost-recovery in the public sector, in the form of user charges for education and health, targeted initially on the better-off, could well be necessary.

The fragile economic strategy consensus will come under strain too on the labour front. While there is broad agreement on the need to put job creation ahead of wage increases, optimism that the lifting of sanctions and increased investment

will make a significant dent in unemployment looks misplaced. Unemployment, estimated at a frightening 46 per cent by the SARB, is the most important single challenge that will face the next government. The optimistic scenario exaggerates the problem, citing the 1991 census which found that 19 per cent of the workforce were actively seeking jobs, with one quarter of the black workforce falling into this category compared with only 4 per cent of the whites.

Critics accuse employment pessimists of ignoring the vibrant, fast-growing informal sector that is crucial to any strategy for easing the crisis. In 1989, the Central Statistical Service (CSS) estimated that there were some 304,000 full-time black informal sector operators in South Africa to which can be added 1.9m part-time informal sector entrepreneurs and 350,000 employees, making more than 2.5m or almost a third of the economically-active black population. Unfortunately though, much of this informal sector activity is described as "survival" rather than "voluntary" entrepreneurship, implying that many self-employed would sooner have a formal sector job.

The formal sector employment conundrum raises a question that few South Africans feel confident to answer: where can the new South Africa develop competitive advantages? Primary sector activities

with value-added through beneficiation of minerals is perhaps the most obvious answer, but hardly reassuring given the probability of continued sluggish growth in primary product demand and the possibility of ongoing excess capacity. In any event, such operations are highly capital intensive, creating few jobs.

The finance minister is optimistic though, pointing out that Samcor, which assembles vehicles, takes 34 hours to produce motor car compared with 44 hours in Western Europe. In the pulp industry, productivity is higher at one South African plant than in Germany. "We have nothing to worry about in terms of productivity," says Mr Keys confidently, arguing that low black worker productivity under the apartheid system reflected demotivation. "There was nothing in it for them." Black people could not move to better areas, nicer homes or send their children to better schools. They were not motivated to improve productivity.

South African businessmen acknowledge that they cannot expect to match the Asians in terms of cost, work ethic or productivity. Their competitive edge is in resource-intensive activities, low-cost energy, a superb infrastructure, and in services such as banking and information technology. In manufacturing though, competitive advantage will depend on investing in skills, technology and training and since this kind of investment does not yield quick returns, success in manufacturing is more likely to be found in niche operations than in any single industry.

Even if the foreign investor is satisfied that the country has put political violence and instability behind it and has the capacity to develop competitive advantages in specific areas, the nagging question remains: why should South Africa be different from the rest of the continent?

Mr Keys brushes all doubts aside. "South Africa is totally different - always has been," he says, putting his finger on what few would dispute is the country's single most important advantage - its powerful, battle-hardened, diversified private sector. "We have" he says, "a lot of indigenous capital here making a return and which has every intention of going on doing that."

## POLICY

## From civil war to consensus

WHEN Derek Keys took over as South Africa's finance minister in May 1992, one of his key priorities was stopping the economic "civil war". It is a measure of the progress made towards achieving consensus on economic policy that he can now pronounce this "done".

Certainly there will continue to be disputes between the main political players, business and labour. The past two months have offered ample examples: the issue of cellular telephone licences, a rise in the petrol price, trade union rights under a future constitution - all these elicited threats from the ANC and its trade union ally Cosatu (the Congress of South African Trade Unions) ranging from mass action and a national strike, to nationalisation.

In the event, deals were struck and disruption avoided. This represents enormous progress. In the past economic disputes often ended in mass action and conflict. Now they are managed, and a satisfactory resolution is normally achieved. It is a fair guess that this spirit of compromise will inform South Africa's economic policy under a new government. Mr Keys comments: "There is always a way - for this job, that is my motto."

If praise is due, then Mr Keys stands at the front of the queue. More than any other factor, his skills as manager and deal-maker, coupled with an engaging personality and intellectual authority, account for this change.

Considerable assistance, however, has also come from other quarters. Most obviously, the National Economic Forum (NEF), the tripartite body where business, government and labour seek agreement on economic policy, has performed a critical role. The ANC has also played its part with Mr Trevor Manuel, head of the Department of Economics and Planning, spearheading a more flexible and considered approach to economic policy.

The results are impressive. Recent months have seen South Africa make significant economic commitments, all of which enjoyed multi-party support.

These include signing a final debt rescheduling deal, which runs for eight years, agreeing the terms of an \$850m loan from the IMF, agreeing the terms of a revised offer to GATT, whereby South Africa's

tariff book will be substantially simplified and the average tariff lowered; and agreeing the terms of future relations with the World Bank.

To ensure that South Africa's commitments in these areas enjoyed the necessary political legitimacy, Mr Keys established an ad hoc committee, the Economic Technical Committee (ETC), on which government, the ANC, PAC and Inkatha were represented. In all four of the above cases, the ETC agreed the final terms. Tensions still exist between - roughly - the ANC/Cosatu

on one side, and government/business on the other but the crucial differences are the way in which these issues are handled.

The latter is testimony to considerable policy movement from the ANC in particular. Certainly, the organisation and some of its leaders have not totally shaken off their socialist vision. Both Mr Mandela and Mr Ramaphosa, ANC secretary-general, have let the dreaded nationalisation word slip in the past two months. But, as one commentator noted: "The movement is clear, it is not always convincing - but it's not a trick."

Currently, the ANC is best characterised as being a reluctant convert to market economics. If it has left behind the days in which it was firmly committed to nationalising the mines, banks and "commanding heights" of the economy, it still retains a touching faith in the state as a powerful agent to do economic good. It remains as sceptical as ever, however, of Adam Smith's invisible hand. The search is on, therefore, for some sort of "third way", with countries such as Germany and Sweden, notwithstanding their respective difficulties, cited admirably.

Although some ANC spokesmen have started increasingly to say "the right thing" - justifying, for example, their commitment to a vigorous anti-trust policy in terms of the need to promote the efficiency of markets - some doubts remain.

Thus, while Mr Mandela has taken to vigorously beating the foreign investment drum since calling for the lifting of eco-

nomics sanctions in September, he still continues to "invite" investors to come to South Africa to "help", as if that were their main concern.

Domestically, the economic focus of an ANC government will be on a programme of "national reconstruction", with the aim being to visibly uplift the lot of its followers. This will basically be a case of "more of the same" since the past three budgets have already had a heavy emphasis on redistribution, with essentially the same purposes in mind.

While this envisages a heavy role for the state in areas such as public works programmes, this should take place within reasonable fiscal limits. Not only is the ANC on record as saying macroeconomic balance must be maintained, but it has also acknowledged that South Africa is already highly taxed. It is committed, in terms of the IMF loan letter of intent, to limiting the budget deficit (8 per cent of GDP is the target in 1994/95). There is also little evidence that a new government will interfere with monetary policy, though business is likely to lobby for some let-up in pressure.

Of privatisation, little is likely to be heard. While commercialisation of state corporations - notably Posts and Telecommunications and Transnet - is under way, the ANC remains set against the concept. Mr Keys's judgment is that "the final step to privatisation will require substantial disappointment with other routes first."

A much more difficult longer term question facing a new government will be the restructuring of trade and industrial policy. Sanctions, and efforts to combat them, have left some areas of the economy uncompetitive in the international market.

Mr Eugene van As, executive chairman of pulp and paper group Sappi, cites the example of the truck that draws up to his factory gate: it probably costs 100 per cent more than the price his international competitors pay, the tyres are probably 30 per cent more expensive and the spares double the cost. He adds that if he

were able to buy five chemicals at the price his US competitors pay for the same products, he would virtually double Sappi's earnings.

Ironing out these distortions in the economy will take wisdom, time and sacrifice. How much is available is unclear. While Gatt has said it understands South Africa needs time to address these problems, this has not stopped it rejecting what it regards as excessive tariff protection for South Africa's beleaguered clothing and textiles sector (proposals of 60 per cent for clothing and 45 per cent for household textiles under the latest Gatt offer).

In terms of its other international economic relations, a future government is likely to take a fairly robust stance. The ANC/Cosatu, for example, has made clear that it has no taste for a supplicant relationship with the IMF and World Bank, with economic policy decided in Washington. Current economic policies are broadly consonant with IMF norms, and no World Bank finance is expected much before the end of 1994. Funds for development are available locally; the priority now is to work out how these should be spent. Only later will the need for Bank finance emerge.

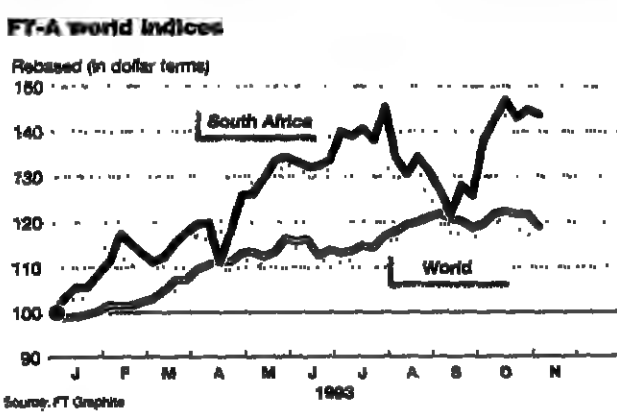
The other two important relationships will be with the European Union (EU) and neighbours in the region.

The former is important because South Africa does not belong to any economic grouping, and the EU is its largest trade partner. It looks unlikely that South Africa will accede to the Lomé convention, which offers concessionary trade terms. More likely will be some sort of bilateral framework agreement which can be negotiated much more quickly, while also offering substantial market access benefits.

As to the region, a new government will probably want to join the Southern African Development Community (SADC), if only to show solidarity with many of its allies in the frontline states.

Present indications are, however, that co-operation is likely to focus initially on functional issues such as power and transport with more grandiose visions of economic integration lying some way further in the distance.

Philip Gawith



WHAT LEVEL OF INSIGHT DO YOU LOOK FOR WHEN CHOOSING AN INTERNATIONAL BANKING PARTNER IN SOUTH AFRICA?

Global change is upon us, old is giving way to new and only those with vision enough to meet the changes head-on will survive in the international banking arena.

In a country already singled out by the World Competitiveness Report of 1992 for its financial know-how, four of South Africa's foremost names in banking met the challenge. The result: ABSA BANK, a continental banking leader, with assets totalling more than R85 billion.

ABSA BANK

Amalgamated Banks of South Africa

EVERYTHING YOU'D EXPECT FROM AN INTERNATIONAL BANKING PARTNER

ABSA Bank Treasury and International Banking Division  
Sutton Centre  
Jeppe Street  
Johannesburg  
SOUTH AFRICA  
Tel: (011) 410 9111  
Fax: (011) 410 9111  
Dealing Room: Tel: (011) 29 7251

London Branch  
32/34 Gray's Inn Road  
London EC1A 3AH  
UNITED KINGDOM  
Tel: (0171) 324 2500  
Fax: (0171) 324 2500

Hong Kong Branch  
Suite 2202-2204  
9 Des Voeux Road Central  
HONG KONG  
Tel: (852) 573 1000  
Fax: (852) 573 1000

Frankfurt Representative Office  
Frankfurt  
FRANKFURT  
GERMANY  
Tel: (49) 69 17 30 1  
Fax: (49) 69 17 30 15



## SOUTH AFRICA: OPEN FOR INVESTMENT

Philip Gawith finds that business is looking on the bright side

## Starry-eyed optimism



Philip Gawith is able to play again on the world stage

SOUTH AFRICA'S business community is either foolish, or possessed of great faith. Whichever the explanation, it is difficult to find a senior business executive who is not optimistic about the future. Considering the seismic changes occurring in the country, this is an amazing state of affairs.

In part, businessmen are simply talking to their book. Businesses will stand or fall depending on how the country's fortunes wax or wane. With the alternative too ghastly to contemplate, they choose, understandably, to look on the bright side.

There is also the punch-drunk factor. Businessmen reason that having lived through and survived the 1980s, there is little left to fear. Then business was faced with a government that did not care a fig for it, in a country experiencing serious domestic political unrest, and pariah status in the international world. Can things get worse?

Clearly they can, and it would be wrong to suggest that business is possessed of a facile optimism at odds with events in the country. Indeed, there has hardly been an annual report issued in the past two years where the detrimental effects of violence and political instability on business has not been lamented. But people rightly treat the possibility of uncontrollable violence as a worst case scenario and plan from a more optimistic premise.

More plausible a scenario is that a future government, set

on advancing the lot of black business, could make onerous demands that seriously impede the ability of companies to operate freely.

But this scenario is not given much credence in the business community. With the country just emerging from a four-year recession, businessmen are not about to let politics quench their ardour. Although some companies reporting recently have turned in good results, this has in most cases been due to extraneous factors, such as a weak exchange rate and lower corporate tax, or simply running a tight ship.

But although trading conditions remain grim, business is keen to whet its lips again looking to the rise of more than 30 per cent per annum in corporate profits in the late 1980s.

This optimism explains why the South African Chamber of Business's (SACOB) confidence index rose to a three-year high in October.

However, there are some who believe next year's trading conditions will be poor because of disruption during the elections.

Time could prove the business community to be starry-eyed in its benign assessment of the impact of political change. This optimism, how-

ever, is not baseless. While business and the ANC may not yet have reached the position of being ideological bedfellows, the *toned-down* (coming together) that has taken place since the ANC was unbanned has been remarkable. ANC leaders' diaries are chock-a-block with appointments to breakfast, lunch or dine with businessmen. Businessmen, for their part, are not averse to letting slip that they are on first name terms with ANC heavyweights.

Indeed, one of the more interesting features of the "new South Africa" is watching how companies try and position themselves for the future. Lining up in the robust

corner is Anglo American, South Africa's largest company, which has always followed the adage "We don't want to be loved. We want to be respected". To its credit, it has never been afraid to stand up and be counted, and there can be little doubt that this has borne fruits. In the area of anti-trust for example, while the jury is still out on what sort of policy South Africa will eventually get, Anglo's muscular defence of its size has helped focus and improve the quality of debate.

Others, however, favour the softly-softly approach, downplaying deficiencies in ANC policy and not seeing all differences as issues of principle that need to be confronted. Businesses normally arrive at this perspective by two different routes. Some have genuinely good relations with the ANC, the product of commendable liberal track records and a belief that they are dealing with "good" men. Others are opportunistic, jumping ship after years of obedience to the National Party. This is not necessarily a bad thing. They may lack principle, but they are "operators" and their willingness to engage with the ANC has played its part in selling the case for business. Just as companies take dif-

ferent views on how they relate with politicians, so they take different approaches to how they should respond to change. All businesses, of course, are required to take a closer look at "soft issues" such as affirmative action, black advancement and social responsibility programmes, safe in the knowledge that a new government will pay more attention to these issues. Although politicians may never be satisfied with business efforts, there can be no doubt about the considerable time and effort going into these areas.

Beyond these issues, however, the scope to do business differently depends to a large extent on the business you are in. With production-driven business such as mining, the basic process of pulling ores out of the ground and shipping them to foreign markets remains fundamentally the same, regardless of political and social changes. Not so, however, for companies that interface more closely with the consumer. Here the battle is on to capture the spending of the emergent black consumer and this produces distinct challenges in product development. The consumer market, of course, is not the only growth market of the future. Indeed,

optimists are inclined to argue that political democratisation will unleash enormous benefits for the economy as a whole. Mr Grant Thomas, executive chairman of consumer industrial group Malbak, comments: "South Africa's huge advantage is that enormous multiplier effect within its own borders, greater than anywhere except China and the old Soviet Union. The market traditionally only served 20 per cent of the people."

For South Africa's larger companies, a key benefit of political reform is that it has again allowed them to play on the world's stage. Mr Brian Gilbertson, chairman of Gencor, comments: "If you have a good product you don't just stay in your home town." South Africa's large corporates were, during the sanctions era, severely hamstrung.

But the catch-up process has now begun. South African mining houses are swarming over the rest of Africa and in parts of South America and Europe, while industrial companies like Sappi and the then Royal Foods (now Del Monte International) have made large offshore transactions. Exchange control remains a considerable impediment to the internationalisation of activities, but South African companies are at least part of the hunt again. While change is the word on the minds of most businessmen, others also see a large measure of continuity - if not in the way they do business, then certainly in the challenges that face them.

## CONSUMERS

## Retailers woo black buyers

"CHOOSE BLACK Like Me" exhorts a poster at the World Trade Centre, the Johannesburg venue for the multi-party talks. But it turns out to be addressed to the consumer rather than the voter, advertising nothing more epoch-making than a range of hair care products.

Black consumers, particularly those in urban areas, are becoming the focus of the South African retail sector in recognition of the sheer size of the market and the expectation that wage differentials with whites will continue to narrow. On average a black household still has an income only one sixth of that of its white counterpart, is likely to have more offspring to support, as well as dependent members of the extended family often living in rural areas. A survey by the Bureau of Market Research at the University of South Africa shows that metropolitan blacks commit 7.5 per cent of their household expenditure to the support of relatives.

This compares with only 0.2 per cent for those living in the quasi-independent "homelands" who are more likely to be recipients of remittances from city breadwinners.

Given such burdens, opportunities for discretionary spending - and for those businesses seeking to attract it - seem limited. Holidays, for example, absorb a bare 0.3 per cent of black outgoings.

So, it is no surprise that the South African retail and consumer products industries have most conspicuously reorientated themselves to urban blacks in sectors such as food (which takes 20.4 per cent of their household spending), clothing and footwear (8.1 per cent), alcohol (4.5 per cent) and tobacco (4.8 per cent).

Edgars, the clothing chain with nearly a fifth of all sales in its sector, now has close to half its revenues coming from blacks, according to a retail industry analyst at a stock-broking firm.

Blacks now consume some 80 per cent of all lager drunk in the country, shifting away from home-brewed sorghum beer and helping the near-monopoly South African Breweries (SAB) maintain volumes. Checkers, the supermarket chain which merged with Pepcor, owner of the down-market Pep clothing shops, has converted many of its stores into cheaper-line Shoprite outlets and held prices down.

Mr Marvin Sereah, managing director of OK Bessies, says: "Our customer is now the emerging nation. There is no embarrassment in saying we are not in the cash and carry business." OK is targeting middle-income blacks rather than the "fringe of affluence," of whatever colour.

All advertise extensively, in

black media such as the Sowetan newspaper, conscious of the need to establish their brand while there remain few black-owned companies with the capital to compete. Billboard campaigns in particular convey the imagery of egalitarian multicultural bonhomie which exists more in the minds of advertising agency creative departments than on the street, beach or bar terrace which form their backdrops.

At the same time, though, some companies have pursued particular strategies to boost demand among blacks. CNA Gallo, which runs a chain of newspaper/stationers as well as cinemas and a record label, has become the largest seller of postage stamps apart from the Post Office itself. This is not because that business is itself lucrative - rather, it gets blacks coming into its stores, previously an apparent preserve of white reading matter.

Malbak, an industrial group which has interests in food, pharmaceuticals, packaging, furniture and appliances, has examined each of these sectors to see where potential black demand offers scope for expansion. For example, it is placing emphasis on the supply of generic drugs which are cheaper than their proprietary equivalents - the Unisa survey shows urban black households allocate as much as 20.7 per cent of their spending to medical and dental needs.

Mr Grant Thomas, chairman of Malbak, argues: "If you look at the new South Africa, where will the money be spent? Housing, health, transport, education. If you build a house it will have at least one plug. Then look at what they want: lights, TV, fridge, cooker." Beyond that, the family would be likely to buy packaged foods "once they have a refrigerator, thus neatly covering two more of Malbak's bases."

With demand for household durables such as fridges at near-saturation among whites, the sources of growth for electrical goods manufacturers and retailers lie clear. Rapid urbanisation following the abolition of their restrictive pass laws in the 1980s has brought around half South Africa's black population to the cities.

As electrification of the townships progresses, and some residents trade up into previously white inner-city areas, black spending should help fuel a consumer-led recovery if one takes off. Baring Securities estimates that overall private consumption expenditure, which has begun to revive this year, will grow by 2 per cent in 1994 and add a percentage point each year through 1996.

Gordon Cramb and Philip Gawith

## DEVELOPMENT

## Expectations may be too great

SOWETO-ON-SEA, one settlement has been dubbed. Families living in shacks in a river flood plain in the Eastern Cape city of Port Elizabeth are being moved there en masse. But this is not the dawn bulldozer raid of the old South Africa - the squatters are going, voluntarily, to set up home on a plot of land which each will own.

Another shanty town, in Welkom in the Orange Free State, is relocating to a new settlement nearby which they have called Vukuzenzela - in translation, "Wake up and do it yourself."

The name is apposite, because the squatters are not being rehoused. What they get is a "serviced site," with at least water and sewerage laid on. The building work is up to them. The two are among the 100-plus such projects around

the country undertaken by the Cape Town-based Independent Development Trust since it was launched in 1990 with the political endorsement of the African National Congress and Inkatha and Eban of government money. Further project funds have since come from other donors such as the European Community.

The IDT has spent some R850m establishing more than 110,000 sites, in the process becoming the biggest provider of new homes without ever having built a house. The number represents nearly 10 per cent of the 1.2m households it

estimated had no proper roof over their heads, no mean feat in three years. But that figure is rising as blacks gravitate towards the cities to seek elusive employment, and the trust's "collet towns" - that is their sole offering - are barely holding the line.

Some 10m people are without drinking water at home, 15m lack sanitation, and 23m have no electricity. The IDT estimates that the country is short of 50,000 classrooms, a number which it expects to double by 2000. Some 1,000 more primary health facilities are needed. Redressing this legacy will

be a daunting task.

Esakom, the state-controlled electric utility, for example has a five-year programme to electrify 1m households, and new connections are running at 35,000 to 40,000 a month. However, this still leaves some 30 per cent of homes without power by 2000, beyond the five-year life of next year's transitional administration.

Mr Derek Keys, finance minister and former head of mining house Gencor, says bluntly of the country's social infrastructure needs: "I don't think the market is going to do it." His downbeat view echoes

that of many in the private sector who insist that institutions with the financial clout which could make a tangible difference, notably the life assurance offices, have a fiduciary duty to their shareholders or policyholders which would not allow them to justify investing in or lending to ventures where the risks are large and the returns uncertain.

But the market is at least trying. Mr Steven de Bruyn, assistant general manager of UAL, the merchant banking arm of the Nedbank group, says ways need to be found to make the risk palatable. These would often require government involvement, say in setting up a US-style mortgage guarantee fund so home loans could be extended to those without the financial track record which usually only whites can meet. Such a loan book could then be securitised.

This is not too far a jump from the capital markets issue which UAL this year put together for Esakom, the state electricity supplier, to fund its electrification programme aimed mainly at black residential areas. The R590m first tranche was fully subscribed locally after the Reserve Bank deemed the detachable warrants on the bonds allowed for-

signers too much scope to exploit the country's dual exchange rate system.

Preventing defaults on mortgages may be less easy, but at least there is supposed to be an income stream to repay an investment outlay. What of education and health, where no such evident return exists? Even here, schemes are being examined. In tertiary education, for instance, a loan fund has been mooted along the lines of a model being explored in Australia. Borrowings would be repaid from students' eventual earnings, debited directly, and the fund would become self-sustainable as these flows gain pace.

Outside agencies will now play a greater role. The World Bank and International Monetary Fund themselves arouse both hopes and fears, given the stringency of their prescriptions in the rest of Africa. A letter of intent between South Africa and the IMF is ready for signing next month (but loans from the Washington institutions are in the main thought likely to be used initially to refinance existing bank borrowings rather than provide a slew of new development cash).

In a recognition of the scale of the task, Derek Keys says large-scale community upliftment "needs an entrepreneur - maybe it needs 10,000 entrepreneurs - to organise. I hope a representative government is in a better position for that than our government."

Gordon Cramb

Philip Gawith looks at the financial rand, the investor's torment

## Disliked but 'still necessary'

NEXT to violence, political instability and concerns about ANC economic policy, what investors like least about South Africa is exchange control. In fact, outside of a few lawyers and tax advisers, it is difficult to find anyone who likes it. Even the Reserve Bank, which administers the policies, never tires of saying that it would like to rid the country of this albatross.

Earlier this month Dr Chris Stals, governor of the Reserve Bank, commented: "An early end to the dual-currency system is not in the offing." He also noted that the financial rand will remain as long as the domestic political and social instability continues.

With South Africa facing an election on April 27, 1994, and the immediate aftermath a great unknown, few believe the financial rand will go before the end of 1994 at the earliest. While most exchange control regulations are aimed at stopping people taking money out of the country, it is the dual-currency system that most affects foreign investors. In terms of this system South Africa has a commercial rand, the official rate of exchange used for all normal commercial activities; and the financial rand which is basically a currency for non-resident investment or disinvestment.

The aim of the financial rand is to protect the country's foreign reserves. The system is designed to ensure that when foreigners repatriate their investments, they do not do so at the expense of the country's reserves.

Foreign investors need to pay close attention to the financial rand as it is a highly volatile currency easily capable of negating any gains made

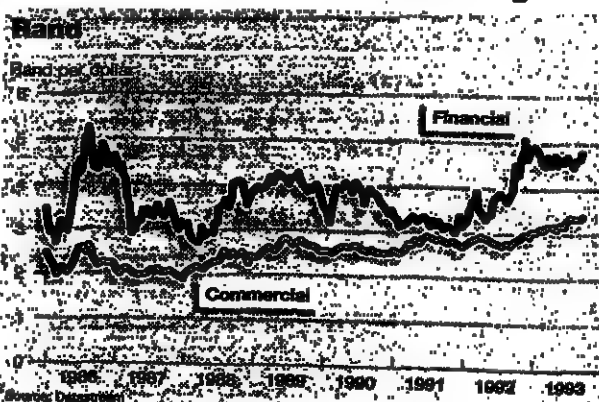
in, say, an investment in equities or bonds. Indeed, many foreigners suffered heavy losses in the second half of 1992 when the currency weakened dramatically. Although turnover in the market has increased, it remains a very thin market, skittish and difficult to predict, and easily moved by a large order.

Financial rands are created when a non-resident sells his South African investment to a South African. He must be paid in rand, which rands are then deposited in his account with an approved dealer in foreign exchange (all of the main banks). Once in his account, the rand becomes financial rand which can only be sold by the non-resident owner to another non-resident against payment in a foreign currency.

By definition, residents can never own, and hence sell, financial rand (though, in very limited circumstances, locals may use financial rand for offshore transactions). Residents are also not allowed to buy financial rand as this would require foreign exchange - precisely what the system is supposed to avoid.

In considering when the financial rand might be abolished, it must be remembered that this subject is inextricably bound up with South Africa's debt standstill arrangements. These were introduced in 1985 and covered the country's repayable foreign debt (then \$12.5bn, now down to \$5bn in terms of a final agreement reached last September).

The government's position was that it would have been unfair if a restriction had been placed on repayment of foreign debt at that time without also restricting the repatriation of foreign investment in South



African equities. This would have led to undesirable arbitrage transactions - hence the introduction of the financial rand.

Likewise, it is most unlikely that the Reserve Bank will scrap the financial rand system while foreign creditors remain subject to a debt repayment scheme. The latest scheme is due to run for eight years. For South Africa to consider ending it before then - that is, repaying the affected debt - will either require that it manages to roll over a substantial amount of the \$5bn still subject to the scheme, or that its

reserves grow to the position where it feels they can withstand a sizeable capital outflow. Current levels, which cover only about six weeks of imports, are a long way short of the required level.

The best indicator that the financial rand is ripe for abolition will be when the discount to commercial rand, currently about 20 per cent, either narrows considerably or disappears altogether. This is unlikely before South Africa is seen to have achieved a stable and sustainable transition.

Philip Gawith

## FINANCIAL TIMES

LONDON PARIS FRANKFURT NEW YORK TOKYO

## NEWSLETTERS

## SOUTHERN AFRICA BUSINESS INTELLIGENCE

FREE sample issue

Changes throughout Southern Africa are creating exciting new business opportunities. To help you assess the rapidly developing situation, the *Financial Times* publishes a twice-monthly newsletter, *Southern Africa Business Intelligence*.

## THE NEW BUSINESS RESOURCE

SABI brings the insider's view direct to the desk of the business executive or government official. The editorial brief is to provide authoritative and reliable commentary on the business environment in South Africa and its neighbours.

## EXCLUSIVE NEWS

The newsletter is written by experienced local and international correspondents who really understand the needs of the worldwide business community. SABI provides up-to-date analysis and on-the-spot news. Exclusive information backed by the resources of the *Financial Times* to help you maintain a competitive edge.

## COMPLETE REGIONAL COVERAGE

This newsletter regularly examines all the important issues. From investment openings and changing buying patterns, to Zimbabwe's economic predicament and South Africa's long-term regional role.

Read SABI for a succinct and clarified presentation of Southern African events and trends. A subscription to SABI will provide you, twice every month, with the background knowledge you need plus analyses of the economy, finance and investment, trade, tourism, transport, energy, mining, and new business and political developments.



Return the coupon below to see the benefits of SABI for yourself.

## FREE SAMPLE ISSUE

Please send me a sample issue of Southern Africa Business Intelligence free of charge and completely without obligation. I understand that SABI is only available direct from the *Financial Times*. 1993 subscription price (for one year) £415 UK or \$430/US\$765 elsewhere.

Name \_\_\_\_\_ Position \_\_\_\_\_  
Company \_\_\_\_\_  
Address \_\_\_\_\_  
Tel \_\_\_\_\_  
Nature of business \_\_\_\_\_

Return to: Clive Barrett, IT Newsletters, Number One, Southwark Bridge, London SE1 0HL, England. Registered No. 980896 VAT Registration No. HG 278 5371 21



NB POWER

more than 20 reactors. At the very least Russia is likely to need World Bank help if it is to proceed. In the Ukraine, unable and

and western nuclear operators. Mr Remy Carle, chairman of the WANCO governing board and deputy general manager of Electricite de France, told the

economy, supplies or fuels and other factors over which the nuclear industry has little control.



## THE VIEW FROM ABROAD

## INTERNATIONAL CAPITAL MARKETS

## Playing hard to get

NOW that the sanctions have been lifted and agreement has been reached on its repayment of the \$5bn of foreign debt caught in the 1985 standstill, only the elections in April stand in the way of South Africa's return to the international capital markets.

However, since it has been shunned by the international investment community for so long, South Africa is playing hard to get with the numerous banks that have come courting.

Although the gold and foreign exchange reserves have fallen, there is no urgent need for South Africa to raise funds internationally. An \$500m loan facility from the International Monetary Fund (IMF) should be forthcoming by the end of

the year and South Africa also has access to short-term credit lines from several banks.

Nevertheless, bankers expect South Africa to launch its first international bond issue since January 1992 after the elections.

South Africa is likely to test the waters with a Eurobond issue denominated in D-Marks. If the D-Mark Eurobond issue is successful, South Africa will then consider an offering in the higher-profile eurodollar sector.

Offerings from parastatal issuers are likely to follow.

The main bone of contention is the interest rate South Africa would have to pay to raise funds in the Eurobond market. Borrowers who want to raise funds in the Eurobond market have to pay a "spread"

or premium over the yield in the domestic government bond market. The size of the yield spread is determined by the market's perception of the borrower. The bigger the spread, the riskier the borrower.

Bankers say that as long as South Africa is classified as an emerging market it will have to pay a yield spread of between 225 and 275 basis points over underlying government bonds. This is well above the yield spread of around 175 basis points which South Africa is prepared to pay.

As a result, South Africa could refrain from coming to the international bond market until the pricing issue has been resolved.

Antonia Sharpe

## UNITED STATES

## Ready but not yet willing

SOUTH AFRICA'S constitutional agreement will intensify US corporate and investor interest, but few American companies seem likely to move quickly into the Republic.

Mr Jonathan Humeke, investment policy manager at the US Council for International Business, which represents some 300 multinationals, thinks they will re-enter "very cautiously, very quietly and very slowly".

More than 200 US companies left South Africa in the 1980s, under pressure from state and local government economic sanctions, which will take time to be lifted.

With a constitutional agreement in prospect, many US companies have been examining

options in South Africa. Mr Tony O'Reilly, head of foods group E.L. Heinz, travelled to the country two years ago on an initial exploratory trip.

A few companies have already taken the plunge. The Investor Responsibility Research Center, a Washington-based monitoring group, reckons that at least 28 companies have gone into the Republic since mid-1991.

Large Wall Street brokerage houses and fund management groups, which stopped handling South African securities in the 1980s, are also preparing to get back into the market.

Yet despite this surge of interest, most American corporations remain wary of a significant exposure.

There remains a lingering distrust of the African National Congress, and there is concern about the stability of the country after next year's elections.

Analysts say these worries mean that many US companies will re-enter the market through cautious routes - such as exports, joint ventures and licensing agreements - and many will seek partners in the black community.

The same concerns mean that large US fund managers, who have been mapping up stocks in so-called "emerging markets" in Latin America and Asia, may be leery of rushing into South African securities.

Martin Dickson

## JAPAN

## Still in courtship phase

ALTHOUGH Japan has long been a significant trading partner for South Africa, the strength of that relationship has not been matched by high levels of investment.

"There is an awareness that South Africa is a promising market," says Mr Sota Sakai, manager of the Middle East and Africa Section at Marubeni, the trading house. "But when it comes to investment, this is like a marriage so it will take more time to reach that point," he notes.

While Japan was South Africa's fourth largest trading partner in 1990 after West Germany, Great Britain and the US, due to international sanctions there has been no Japanese direct investment in

South Africa for at least the past 10 years, the Ministry of Finance says.

The political situation is still a strong concern. The Japan Bond Research Institute, gave South Africa a 5.9 general rating in its latest July report, which was up from 5.4 in January and 4.0 in January, 1988. The Institute attributed the higher ranking to the positive aspects of the government's fiscal and monetary policies as well as enhanced international trade in South Africa.

Geography is also a problem. "Japan is not that internationalised yet," explains Mr Sakai. Japanese businesses also believe that the entire business environment in South Africa needs to be improved before

the country can expect to see a significant influx of investment from Japan.

Greater communication between the two countries is also necessary before Japanese businesses are likely to feel comfortable with the idea of investing in South Africa. For much the same reasons, there is little interest in Japan in South Africa's capital markets.

Meanwhile, the activities of Japanese banks with regard to South Africa have been frozen since the country declared a debt standstill in 1985. It is believed that no new lending will be forthcoming from banks, Japanese or other, until that situation is resolved.

Michio Nakamoto

## GERMANY

## A game of wait and see

GERMAN businessmen are well aware of the potential of the South African market - but they are also acutely conscious of the risks.

The attractions lie in the country's well developed industrial infrastructure, a cheap labour force and the market of 125m consumers in southern Africa. The downside is equally obvious and can be summed up in one word: instability.

"German companies will invest," commented a German diplomat in South Africa earlier this year at a trade fair to promote trade between the two countries, "but only when the framework is in place: that means stability, a market economy and the removal of the danger of nationalisation."

As the BDI, the Federal Association of German Industry, put it in a memorandum last month, the next government in South Africa will face massive challenges in restoring the country's economy.

That government may indeed find itself on a collision course with the expectations of the black majority.

For the moment German companies have less risky, highly attractive markets on their own doorstep, in the countries of the former eastern block. China and other markets in the far east are growing so quickly that they form a central part of many German companies' medium-term expansion plans.

That said, German investment in South Africa should not be underestimated: there are about 350 German businesses or subsidiaries of large German companies in the country, employing 50,000 people.

German investors and trade partners are well-liked in South Africa - not least because German companies adopted a pragmatic approach to sanctions.

But that liking is unlikely to be reciprocated further until South Africa offers a degree of stability to investors.

David Waller

## FRANCE

## A dip in uncertain waters

A DELEGATION from the French employers federation was in South Africa last week to restore the country's position in South Africa's economy.

The political turmoil and violence of recent years, coupled with strong French government backing for international sanctions against apartheid, had the effect of reducing France's share in foreign direct investment in South Africa from 8.6 per cent in 1989 to around 2 per cent today.

Recent negotiation between South Africa and France of treaties on reciprocal protection of investment and avoidance of double taxation should encourage more French companies to dip their toes in South African waters.

It is to help smaller French companies in the South Africa market that the French Patronat employers federation and the Industrial Development Corporation of South Africa last year set up a joint organisation, aimed at modernising South African industry and developing higher value-added exports by South Africa.

There has long been a traditional French interest in South African gold stocks. Several South African gold stocks are quoted on the Paris Bourse and, for example, a majority of the shares in East Rand Proprietary Mines (ERPM) are held by French individuals, according to one French banker.

"But this traditional interest in gold has not spread to other South African shares," the banker says. The latter are relatively expensive, with a high price/earnings ratio, he says. This is due to the controls on capital movements which mean that South African investors have difficulty investing abroad.

But the French investor's main worry says Mr Christian Graeff, leader of last week's Patronat delegation, is "the current image of violence and the prospect that there will be no coherence in policy for some time to come".

David Buchan

## Foreign trading on the JSE equities market (Rm)

	1988	1989	1990	1991	1992	1993*
Purchases	2,570	2,458	10,471	6,844	4,808	8,606
Sales	2,309	5,716	5,999	2,544	4,801	6,832
Net purchases	61	3,382	4,472	4,100	7	1,970

\* Up to October 31

Source: Johannesburg Stock Exchange

## JOHANNESBURG STOCK EXCHANGE

## A quantum leap

BACK in 1986 when sanctions began in earnest, the US sold and Europe bought. Now, at least as far as the Johannesburg Stock Exchange (JSE) is concerned, the positions are reversed. Europe is cautious, the US euphoric.

Down on Diagonal Street, home of the JSE, brokers groan pleasurably at the stampede of US investors knocking on their door - a veritable Wall Street who's who. Of course, the US presence on the JSE has already been highly visible in 1993, being largely responsible for driving the bull markets in bonds and gold shares. But since ANC president Nelson Mandela called for the lifting of economic sanctions in September, interest has soared.

Once limited to speculators, hedge funds and specialists, especially on the gold board, the heavy artillery is massing just over the brow. It will be some time yet before the debris of US state and municipal sanctions is finally cleared, and fund managers who are responsible to trustees will keep a watchful eye on political developments before making any significant decisions. The view on Diagonal Street, however, is that it is now a question of when, rather than if, funds flow. A broker comments: "If you aggregate the figures we've heard, there'll be a lot of sheep trying to get through a very narrow gate."

One Hong Kong fund manager visiting Johannesburg said he was convinced investors would drive the price/earnings ratio of the JSE from 15 to 25, as they have with other emerging markets.

As JSE-watchers point out, it is hardly a typical emerging market - more than 100 years old and with a market capitalisation of about \$145bn (at the financial rand exchange rate of R4.30/\$1), it is one of the 10 largest in the world. There are about 80 stocks with a market capitalisation of more than \$300m, the cut-off point often used by international fund managers to identify stocks they are prepared to hold.

Hence the preference among analysts for describing the JSE as a "re-emerging" market.

Two caveats need to be entered about the bull scenario for the JSE. First, if the main international stock markets crack, the Dow Jones Industrial Index in particular, then the JSE is sure to follow. Second, South Africa must achieve

## South Africa: Comparable equity markets\*

Country	Market cap (\$USbn)	Turnover (% of mkt cap traded)
Hong Kong	231	23
South Africa	189	4
Australia	153	19
Brazil	144	11
Mexico	130	15
Taiwan	121	155
Korea	119	91
Malaysia	111	38
Thailand	82	39
Singapore	80	38
Chile	34	3
Argentina	27	18
New Zealand	18	11

\* Markets ranked by market capitalisation, 1993 data

Source: S.G. Warburg Securities

a relatively stable political transition. Assuming these hurdles are cleared, then the case for the JSE is easily developed. US investors and fund managers are looking to invest an increasing portion of their assets outside the US to improve returns. Given the JSE accounts for about 0.9 per cent of total world stock market capitalisation, and most US fund managers hold little if any SA stock, it is reasonable to assume a flow of funds. Until recently, virtually no US analysts followed South African stocks. As they start to cover them, so funds are likely to follow.

A recent study of 47 global emerging market funds (mostly UK and US) by the UK group Micropal shows that as at June 30, 1993, only 0.07 per cent of their \$8bn assets were invested in South Africa. This process will gather impetus when Morgan Stanley develops a South Africa Index for inclusion in its world index, and should the International Finance Corporation grant the JSE emerging market status.

SA stocks qualify because domestic per capita income is below the \$7,910 cut-off. The case for the JSE is considerably hardened by fairly reliable talk of six to seven South (or southern) Africa country funds being established. Alliance Capital Management Corporation, one of the largest investment management funds in the US with about \$110bn of funds under management, and backed by Merrill Lynch, has already lodged a prospectus with the US Securities and Exchange Commission to launch the Southern Africa Fund - a

closed end investment company. These funds could easily raise \$500m, \$500m.

The chief concern about any large inflow of funds is whether the JSE, with its notoriously poor tradability, can manage them. Latest JSE figures show annualised liquidity at about 7 per cent, but in recent years this has been closer to 4 per cent. Figures from Johannesburg brokers Ivor Jones, Roy & Co show the most liquid domestic industrial stock, SA Breweries, has a monthly turnover of only \$12m. The most liquid stock, by a long margin, is De Beers, with a monthly turnover of about \$57m. The main cause of the low liquidity is exchange control. South Africa's large institutional cash flows - about R30bn per annum, of which at least a quarter will make its way into equities - are forced to chase a small pool of domestic quality scrip. Understandably, the good stock they get they are inclined to hold. If strong buying pressures do materialise, then the upward trend of prices will help loosen stock. The yield-driven, short-term focus of some of the speculative funds already in the JSE will make it more volatile, and also boost liquidity.

South African bonds will also attract attention. Real yields on long bonds of around 8 per cent for foreign investors compare favourably with the returns available in industrial countries. South Africa is a good risk not to default, the market is well organised and liquid, with more than \$1bn daily trading volume common. The bonds offer prospective capital gains from the fall in inflation, and there is the possibility of currency gains from the appreciation of the financial rand.

Investments on the JSE are done through the volatile financial rand, whose movements are capable of wiping out gains in the underlying investments. For investors coming into the bond market in particular, where volumes are quite large, they have to buy the currency before the bond. As one broker commented: "The currency leg is the narrow gate, not the bond." Political stability will help stabilise this market, but investors should treat it with caution.

Philip Gawth

## STOCK MARKET STRUCTURE

## Unthinkable achieved

"YES, the PAC needs some good investment advice," said a senior cadre of the most militant grouping involved in South Africa's multi-party democracy process as he shook hands with a broker last week in the Johannesburg Stock Exchange (JSE) building.

The meeting, unthinkable three years ago, may suggest to some that the Pan Africanist Congress is mellowing. It could also be read merely as a sign of how politicised everything in South African commerce has become. Arguably it always was: investors prospered under apartheid and a claim by the JSE, in a booklet aimed at blacks, that its record is "one hundred years of creating wealth for all South Africans" will be found by many to be tendentious.

But stockbroking firms, in a business as divorced as is conceivable from the daily realities of most people, now eagerly court all the main black movements in the hope that they will be smiled on after next April.

The very structure and operation of the JSE threatens to develop into a political issue. Indeed, if it does, this will at least in part have been at the instigation of the exchange itself, which set up a sub-committee 18 months ago to examine its workings "on the basis that South Africa is going through changes," says Mr Roy Andersen, JSE president.

The sub-committee was charged with examining the market's old-style system of individually liable brokers, trading on fixed commissions and only on their clients' behalf rather than also on their own account. Its report is in its final stages and due in February. Most local brokers think Johannesburg will not have a "phased plan" in which many of the market's traditional practices will be overturned and new entrants allowed in.

The problem for an administration headed by the African National Congress will be that most of the new entrants are the country's big banking groups, which have extensive equity links in industry and other financial sectors. Should a transitional government sanction a further concentration of economic power, which leading ANC members have long wished to diffuse, or should it give its blessing to what others will call a cosy club of vested interests?

There are further questions. If banks, brokers, insurers and industrial companies are allowed all to come under one corporate roof, in a small financial community what prospect is there that Chinese walls will be impermeable? And if black workers are to be given a stake in their employment future, say through share option schemes as a means of promoting productivity gains, how will it look if dealing costs for small investors suddenly rise relative to those of the big financial houses?

Though Mr Andersen is coy about the contents of the report, leading stockbrokers think some sort of change is inevitable. The best guesses circulating in broking firms' offices above the Diagonal Street trading floor are that the JSE will at least initially remain an agency market but that a sliding scale will replace the 0.5 per cent standard commission - becoming freely negotiable for trades over a certain size - and that firms will be able to sell a stake of perhaps 30 per cent to a corporate shareholder.

Suggestions that the banks, if dissatisfied with the pace of change, might set up a screen-based dealing system for the biggest and most liquid stocks are largely discounted on regulatory grounds. But it is a stick which has at least been waved in the distance, and the JSE is believed ready to open up a

gap or two in the larger of its trading floor to ease pressure. Changes are likely to come gradually, starting next year, and the mood will not be one of the Eighties London bonanza. Although a large number of the 50-odd brokers will sell out to banks, the lesson has been learned from the fancy price/earnings ratios paid to City firms before the 1987 crash, says a partner in one Johannesburg securities house. He adds: "Those with the means or the products can survive" - as independent entities if they wish.

This also appears to be the wish of many of the country's fund managers. They are by no means convinced that, in a thinly traded equity market, commissions on buying good lines of stock would fall - even for them. At the same time, they are concerned that any squeeze on brokers' margins might force JSE member firms to cut research output which they commonly use in tandem with in-house analysis. And they see their choice of broker potentially narrowed because some would have tied up with a rival financial institution.

"We want quality of service - in dealing skills and research input - and we are more inclined to accept higher commissions to get it," says one.

Whatever the outcome, as free elections approach and the country's reconstruction needs are thrown more to the fore, black political groups are setting aside their old hostility to the exchange as an institution. While they are likely to have much to say in the coming year about how the JSE should conduct itself to the benefit of all South Africans, even the PAC's slogan seems to be changing slowly from the notorious "One settler, one bullet" to something which may be more like "One settlement, one bull market".

Gordon Cramb

**Copthall Martin**

Member of the Securities and Futures Authority

The leading international stockbroker in South African equities

□ Copthall Martin is the offshore arm of Martin & Co, SA's top institutional stockbroker.

□ Comprehensive coverage of the SA market.

□ Rated No 1 in SA institutional research for 15 years.

□ International dealers in South African equities, gilts and derivatives.

London  
(71) 382 8810  
Anthony Garnett

Johannesburg  
(11) 832 1891  
Richard Stuart

New York  
(212) 484 5885  
Lloyd Pengilly

(212) 713 8653 from 22 November 1993

HALF PRICE WITH THE OTHER HALF

Fly First or Business

Class and you can take your partner along for half price.

For more details please contact your travel agent or nearest SAA office.

London Tel: 01-754 9882  
Manchester Tel: 061-834 3439  
Birmingham Tel: 021-623 8005  
Glasgow Tel: 041-221 0015

**SAA**  
SOUTH AFRICAN AIRWAYS



## SOUTH AFRICA: OPEN FOR INVESTMENT

Tony Hawkins looks at the industrial potential

## Continental launchpad

SOUTH AFRICA'S return to legitimacy coincides with the growing regionalisation of foreign investment decisions. As multinationals rationalise and integrate their foreign operations to secure scale economies and improve co-ordination, so they are looking more carefully at regional, rather than national, markets. Invariably this means consolidating operations at one, or a few, locations to serve a regional market, especially where trade flows are being liberalised.

By any yardstick, South Africa is the logical launchpad for penetrating the sub-Saharan market, worth some \$250bn, of which South Africa itself accounts for more than \$100bn or more than 40 per cent. The South African market, although small by global standards, is the only African market large enough to justify a broad range of manufacturing activities. The next largest is Nigeria, worth \$34bn and set to shrink in foreign currency with devaluation next year.

While few companies have yet rationalised their operations with the establishment of regional headquarters in South Africa, this is likely to be a pervasive trend, once the violence subsides and business confidence returns. BP is one company that will establish a regional headquarters in South Africa, while a number of manufacturing companies, such as Nissan, are known to be actively considering developing their South African fac-

**South Africa is the only African market large enough to justify a broad range of manufacturing**

ance, capital markets, hotels and information technology. It has spare capacity in energy and transport, a vast pool of unskilled labour, a rich natural resource base, a better skills endowment than anywhere else in Africa - though way behind Asian levels - and a large enough domestic market to justify most industrial investments. By African standards the environment is investor-friendly and there are few African locations that can match South Africa's quality of life.

The disadvantages are essentially socio-political - political and criminal violence, allied with the worry that, even if they are papered over in 1993/4, ethnic tensions will re-surface later in the decade. Labour relations are also a possible reason for steering clear of

South Africa given the high cost of labour relative to that elsewhere in the region and far higher levels of unionisation. Against that is the relentless decline in the relative importance of direct labour costs in most business activities, with raw materials, capital and transport costs assuming far greater significance. These costs are likely to be lower in South Africa than elsewhere in sub-Saharan Africa.

International business is likely to adopt one of two main strategies for serving the African market in the 1990s:

■ It will export into the region from offshore using agents, licensees or franchisees as a vehicle; or

■ It will use South Africa as the mode of entry, manufacturing or assembling in the country primarily for domestic consumption while exporting residual amounts to the region.

Clearly, neither strategy will work if African countries maintain tariffs and other barriers against imports. But with the march of economic reform, regional economies are being liberalised, thereby encouraging foreign firms to sell into the usually tiny markets from outside rather than setting up shop behind high tariff barriers as was the pattern in the

1950s and 60s. There are two polar views of how trade and investment flows will evolve in Southern Africa. On the one hand, the locomotive theory holds that South Africa will become the

**By African standards the environment is investor-friendly and the quality of life is excellent**

region's economic dynamo that helps turn the sub-Saharan economy around.

The alternative school holds that South Africa, certainly for the immediate future, has more than enough on its domestic plate to make much of a contribution to the regional turnaround. Indeed, there are even those in Botswana, Namibia, Zambia and Zimbabwe who predict that relocation will, in fact, go the other way, with firms emigrating from South Africa to escape political violence and industrial relations unrest, and exploiting more tranquil labour market conditions - and lower costs - elsewhere.

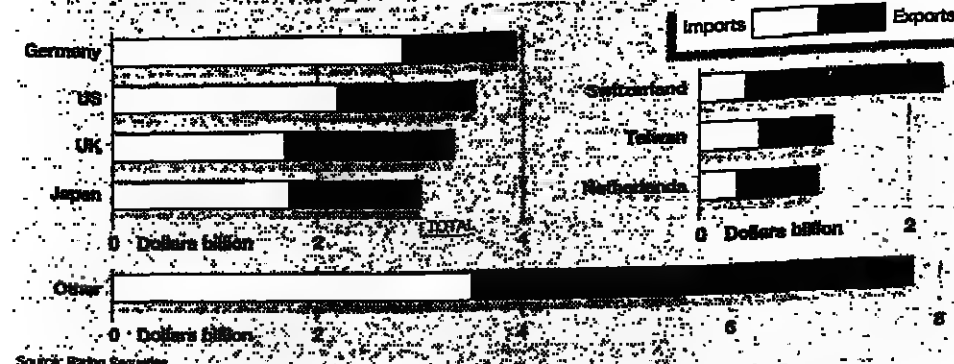
This is an unlikely scenario given the growing tendency for manufacturers to locate as close as possible to their main

markets. The more likely scenario is one in which South Africa becomes the platform for exploiting market opportunities in east, central and southern Africa. South African business is well placed, too, to participate in rebuilding the region's physical infrastructure, on which massive amounts - much of it aid money - will be spent. South Africa aside, there is little indigenous capacity in the region to handle major physical infrastructural projects.

South African businesses will have the edge, too, in some African privatisation programmes - their investment banks and mining houses are already active in countries such as Mozambique and Zambia where privatisation moves are gathering speed.

African leaders will be perturbed less at the prospect of growing South African participation in their economies, than with the potentially one-way traffic that this implies. Few countries in the region have much to sell to Pretoria other than raw materials (oil, copper, coffee, cocoa, tobacco) and tourism. The saving grace - though this will depend on close links with multinationals, often with regional headquarters in South Africa - could be the development of sub-contracting and components manufacture for final assembly in the south. This would turn launchpad South Africa into a positive sum game in which there are winners all round.

## Main trading partners 1992



Philip Gawith discusses foreign investment

## In search of recognition

AFTER the isolation years, South Africa's business community is enjoying being back in the fold, hoping the world will want to trade with it and, above all, invest in it. First prize would be a headline investment of the "IBM to build ship plant" variety.

Clearly the optimists are going to be disappointed, for the time being. First, the world has changed. Before isolation, the eastern bloc and China were no-go zones and the Pacific Dragons had barely entered the business lexicon. Nor had South America embarked upon widespread financial liberalisation. Change

In all of these areas has opened a host of markets competing for the multinational investment dollar.

Second, save for special cases - such as investment flowing from the recent issue of cellular telephone licenses - it is unlikely any significant investments will be made until it is clear South Africa has achieved a stable transition.

This is not, however, to say that nothing is happening. On the contrary, there is a ferment of activity. Examples include: Alfa Romeo is again selling cars in South Africa and Volvo will soon be doing so; IBM is probably going to return through an investment in a local distributor; Hoechst has expanded its operation by paying R70m for a polyester fibre plant; Foodcorp has signed a deal with Pillsbury; Lufthansa has added an extra flight and is flying on a daily basis; ferrochrome producers Samancor and Nippon Denko have formed a joint venture, while Mitsui will distribute some of Sasol's chemicals in Japan and Korea. The list goes on.

So, while the headline investment may be absent, the incremental internationalisation of the corporate scene is proceeding apace. The main trend to be observed is as obvious as it is understandable: companies want to establish a presence, but without any significant equity commitment. As Dr Chris Stals, governor of the Reserve Bank, commented recently in Washington: "They're offering us their services, not their money." The deals one is hearing about are thus in distribution, licensing and franchising.

At issue here is not only the question of who will come, but how they will do it. Any future government is sure to have a very strong commitment to black economic advancement, a process that many US investors, in particular, are likely to want to support. Given the underdeveloped state of black business in South Africa, franchising (sectors with strong potential include hair care salons and fast food outlets) and joint ventures are the most logical routes of assisting this process. There are, for example, many small black business contractors, but often they will lack access to credit to buy materials and have non-existent financial or administrative systems.

The process of finding partners, however, will not be easy. Despite years of activity in this field, the US embassy is still not in a position to offer a list of potential partners.

According to the Reserve Bank, at the end of 1992 total investment in South Africa by foreign residents amounted to approximately \$30bn. This included repayable debt of about \$18bn and about \$12bn of South African corporate equities and bonds issued by government and other public and private sector borrowers. About half of the latter sum is "direct" investment - in South African subsidiaries and branches of foreign companies - with the other half being invested by non-residents in rand denominated paper ("portfolio" investment).

During the sanctions years, South Africa experienced a net outflow of foreign investment from the country as many companies, especially US ones, disinvested. The stock of US fixed investment in South Africa shrank as a result by a third, to roughly \$10bn and 10 companies. Although some UK and European companies also left, most stayed and already have a presence in South Africa. From an investment perspective, the Japanese and Asian presence is negligible.

Mr Derek Keys, finance minister, speculates that the order in which foreign countries will "carry the baton" when they return might be: US, Japan, UK and other Europeans. How will they be received by a future government? The key policy document in this regard is the "Agreed framework in relation to foreign direct investment", a product of the National Economic Forum, and endorsed by the ANC. This is largely a motherhood-and-apple pie affair, but points worth stressing are:

■ Realisation of the importance of stability and "consistent, credible economic policies";

■ The view that South Africa should not introduce special tax incentives to attract FDI, the object rather being "the equal application of reasonably low corporate tax rates which remain stable";

■ During the transition assurances will be provided on security of investment, foreign exchange policy, and minimisation of bureaucratic obstacles;

■ Industrial incentives will be equally available to foreigners and locals.

## TOURISM

## Playground for visitors

ONE industry where South Africa seems certain to develop a competitive advantage is leisure. Even under sanctions and with high levels of violence and political uncertainty, it is the continent's second largest tourist industry, accounting for almost 20 per cent of regional tourist income, more than double Kenya's 9.6 per cent. In 1991, Morocco headed the African league with 24 per cent of tourist revenue.

Globally, South Africa is a tiny player accounting for less than 0.25 per cent of the international tourist business. Excluding African visitors, there were some 560,000 tourist arrivals last year, the bulk of whom (70 per cent) came from Europe, with the UK as the main market (26 per cent) followed by Germany (16 per cent) and the US (9 per cent). With a growth rate of 16.5 per cent in 1992, the Asian market - especially Taiwan (4 per cent) and Japan (1.5 per cent) - is becoming increasingly important. Growth accelerated in the first seven months of 1993 with the number of arrivals increasing 12.7 per cent.

Overseas tourists spend an estimated \$4,800 (\$1,750) per visit (excluding air fares to and from the country) and the industry earned \$2,750m (\$1bn) in foreign exchange in 1991, making it the fourth largest foreign currency earner, after manufacturing, gold and other minerals.

Aside from the lifting of sanctions, the main factor making for tourism growth at a time of global recession has been the liberalisation of the aviation policies and the expansion of air traffic capacity. In the past three years, 19 new airlines have started services to South Africa.

A more market-driven aviation policy has resulted in more competitive market prices and the opening up of the charter market. The number of tour operators has more than doubled, while government has become more active in tourism promotion allowing accelerated tax write-offs for the accommodation industry, a R600m (\$180m) loan programme for eco-tourism projects and support schemes for small entrepreneurs.

On the debit side, tourist perceptions of personal safety in South Africa have deteriorated markedly. In January 1990, some 70 per cent of overseas visitors rated the safety factor in South Africa good but by January this year, this rating had fallen below 30 per cent.

The government's target is to more than treble the number of arrivals by 2000 reaching 1.75m, visitors earning some R24bn in foreign exchange. With hotels operating at below 50 per cent of bed-night capacity, there is considerable scope for expansion without significant new investment in hotels.

Nevertheless, three leading global players - Hilton, Hyatt and Sheraton - have expressed interest in opening up in South Africa.

Tony Hawkins

**"THE CHANGES IN SOUTH AFRICA AND THE WORLD HAVE WIDENED THE CORPORATION'S HORIZONS AND OFFER THE PROSPECT OF A CHALLENGING AND DYNAMIC PERIOD OF RENEWED GROWTH."**

Julian Ogilvie Thompson  
Chairman  
Anglo American Corporation

■ With the Zebra project we are developing, in partnership with AEG and Daimler Benz, an environmentally clean high energy battery to power passenger vehicles in polluted inner city areas. A Mercedes equipped with a Zebra battery has covered more than 45,000 maintenance-free kilometres and other major car manufacturers have requested Zebras for their own vehicle test programmes. A production development facility is being commissioned in Europe. The project demonstrates that industrial lead times can be as long as in mining and as dependent on a deep purse and steady vision.

■ Our R764 million investment in Del Monte Royal Holdings extends our interests in the value added food business and will help to counter the cyclical nature of commodities. The new group, with the prestigious Del Monte brand name, is well placed to build on an already strong market position internationally and, in so doing, help expand the deciduous fruit industry in South Africa.

■ Our international projects do not prejudice our investment programme in South Africa. Namakwa Sands, at a cost of R1 billion, combines our experience of large mining and industrial projects with important new technologies. Namakwa Sands is strongly export oriented and beneficiation will add considerably both to the value of the raw material and to

South Africa's foreign exchange earnings. Reserves are more than 500 million tons and the life of the project is expected to exceed 35 years.

■ The Moab gold mine, of great significance to our position as the principal world producer, is being developed at a cost of R1.7 billion and reaffirms our confidence in the long term future of gold. Over its 25-year lifespan Moab will yield up to 13 tons of gold a year.

■ The Columbus stainless steel joint venture at full capacity will produce 500,000 tons a year, making it the world's largest single-site producer of stainless steel. Columbus typifies the kind of project essential to South Africa's future growth. In turning basic commodities into highly sophisticated alloy steels for overseas markets it adds significantly to the value of South Africa's resource endowment and earns critically needed foreign exchange.

■ The capital cost of these three South African projects, all geared to export, is R5.5 billion, demonstrating once again our long term commitment to South Africa and confidence in its future.

ANGLO AMERICAN CORPORATION  
OF SOUTH AFRICA



VISION BEYOND BORDERS

ANGLO AMERICAN CORPORATION OF SOUTH AFRICA LONDON OFFICE, 19 CHARTERHOUSE ST, LONDON EC1N 6QR.  
Incorporated in the Republic of South Africa, Registration No. 01 05 309 06







**LONDON SHARE SERVICE****INVESTMENT TRUSTS - Cont.**

131	
229	
287	
21	
31	
35	
110nd	
719	

198	199	200	201	202	203	204	205	206	207	208	209	210	211	212	213	214	215	216	217	218	219	220	221	222	223	224	225	226	227	228	229	230	231	232	233	234	235	236	237	238	239	240	241	242	243	244	245	246	247	248	249	250	251	252	253	254	255	256	257	258	259	260	261	262	263	264	265	266	267	268	269	270	271	272	273	274	275	276	277	278	279	280	281	282	283	284	285	286	287	288	289	290	291	292	293	294	295	296	297	298	299	300
198	199	200	201	202	203	204	205	206	207	208	209	210	211	212	213	214	215	216	217	218	219	220	221	222	223	224	225	226	227	228	229	230	231	232	233	234	235	236	237	238	239	240	241	242	243	244	245	246	247	248	249	250	251	252	253	254	255	256	257	258	259	260	261	262	263	264	265	266	267	268	269	270	271	272	273	274	275	276	277	278	279	280	281	282	283	284	285	286	287	288	289	290	291	292	293	294	295	296	297	298	299	300
198	199	200	201	202	203	204	205	206	207	208	209	210	211	212	213	214	215	216	217	218	219	220	221	222	223	224	225	226	227	228	229	230	231	232	233	234	235	236	237	238	239	240	241	242	243	244	245	246	247	248	249	250	251	252	253	254	255	256	257	258	259	260	261	262	263	264	265	266	267	268	269	270	271	272	273	274	275	276	277	278	279	280	281	282	283	284	285	286	287	288	289	290	291	292	293	294	295	296	297	298	299	300
198	199	200	201	202	203	204	205	206	207	208	209	210	211	212	213	214	215	216	217	218	219	220	221	222	223	224	225	226	227	228	229	230	231	232	233	234	235	236	237	238	239	240	241	242	243	244	245	246	247	248	249	250	251	252	253	254	255	256	257	258	259	260	261	262	263	264	265	266	267	268	269	270	271	272	273	274	275	276	277	278	279	280	281	282	283	284	285	286	287	288	289	290	291	292	293	294	295	296	297	298	299	300
198	199	200	201	202	203	204	205	206	207	208	209	210	211	212	213	214	215	216	217	218	219	220	221	222	223	224	225	226	227	228	229	230	231	232	233	234	235	236	237	238	239	240	241	242	243	244	245	246	247	248	249	250	251	252	253	254	255	256	257	258	259	260	261	262	263	264	265	266	267	268	269	270	271	272	273	274	275	276	277	278	279	280	281	282	283	284	285	286	287	288	289	290	291	292	293	294	295	296	297	298	299	300
198	199	200	201	202	203	204	205	206	207	208	209	210	211	212	213	214	215	216	217	218	219	220	221	222	223	224	225	226	227	228	229	230	231	232	233	234	235	236	237	238	239	240	241	242	243	244	245	246	247	248	249	250	251	252	253	254	255	256	257	258	259	260	261	262	263	264	265	266	267	268	269	270	271	272	273	274	275	276	277	278	279	280	281	282	283	284	285	286	287	288	289	290	291	292	293	294	295	296	297	298	299	300
198	199	200	201	202	203	204	205	206	207	208	209	210	211	212	213	214	215	216	217	218	219	220	221	222	223	224	225	226	227	228	229	230	231	232	233	234	235	236	237	238	239	240	241	242	243	244	245	246	247	248	249	250	251	252	253	254	255	256	257	258	259	260	261	262	263	264	265	266	267	268	269	270	271	272	273	274	275	276	277	278	279	280	281	282	283	284	285	286	287	288	289	290	291	292	293	294	295	296	297	298	299	300
198	199	200	201	202	203	204	205	206	207	208	209	210	211	212	213	214	215	216	217	218	219	220	221	222	223	224	225	226	227	228	229	230	231	232	233	234	235	236	237	238	239	240	241	242	243	244	245	246	247	248	249	250	251	252	253	254	255	256	257	258	259	260	261	262	263	264	265	266	267	268	269	270	271	272	273	274	275	276	277	278	279	280	281	282	283	284	285	286	287	288	289	290	291	292	293	294	295	296	297	298	299	300
198	199	200	201	202	203	204	205	206	207	208	209	210	211	212	213	214	215	216	217	218	219	220	221	222	223	224	225	226	227	228	229	230	231	232	233	234	235	236	237	238	239	240	241	242	243	244	245	246	247	248	249	250	251	252	253	254	255	256	257	258	259	260	261	262	263	264	265	266	267	268	269	270	271	272	273	274	275	276	277	278	279	280	281	282	283	284	285	286	287	288	289	290	291	292	293	294	295	296	297	298	299	300
198	199	200	201	202	203	204	205	206	207	208	209	210	211	212	213	214	215	216	217	218	219	220	221	222	223	224	225	226	227	228	229	230	231	232	233	234	235	236	237	238	239	240	241	242	243	244	245	246	247	248	249	250	251	252	253	254	255	256	257	258	259	260	261	262	263	264	265	266	267	268	269	270	271	272	273	274	275	276	277	278	279	280	281	282	283	284	285	286	287	288	289	290	291	292	293	294	295	296	297	298	299	300
198	199	200	201	202	203	204	205	206	207	208	209	210	211	212	213	214	215	216	217	218	219	220	221	222	223	224	225	226	227	228	229	230	231	232	233	234	235	236	237	238	239	240	241	242	243	244	245	246	247	248	249	250	251	252	253	254	255	256	257	258	259	260	261	262	263	264	265	266	267	268	269	270	271	272	273	274	275	276	277	278	279	280	281	282	283	284	285	286	287	288	289	290	291	292	293	294	295	296	297	298	299	300
198	199	200	201	202	203	204	205	206	207	208	209	210	211	212	213	214	215	216	217	218	219	220	221	222	223	224	225	226	227	228	229	230	231	232	233	234	235	236	237	238	239	240	241	242	243	244	245	246	247	248	249	250	251	252	253	254	255	256	257	258	259	260	261	262	263	264	265	266	267	268	269	270	271	272	273	274	275	276	277	278	279	280	281	282	283	284	285	286	287	288	289	290	291	292	293	294	295	296	297	298	299	300
198	199	200	201	202	203	204	205	206	207	208	209	210	211	212	213	214	215	216	217	218	219	220	221	222	223	224	225	226	227	228	229	230	231	232	233	234	235	236	237	238	239	240	241	242	243	244	245	246	247	248	249	250	251	252	253	254	255	256	257	258	259	260	261	262	263	264	265	266	267	268	269	270	271	272	273	274	275	276	277	278	279	280	281	282	283	284	285	286	287	288	289	290	291	292	293	294	295	296	297	298	299	300
198	199	200	201	202	203	204	205	206	207	208	209	210	211	212	213	214	215	216	217	218	219	220	221	222	223	224	225	226	227	228	229	230	231	232	233	234	235	236	237	238	239	240	241	242	243	244	245	246	247	248	249	250	251	252	253	254	255	256	257	258	259	260	261	262	263	264	265	266	267	268	269	270	271	272	273	274	275	276	277	278	279	280	281	282	283	284	285	286	287	288	289	290	291	292	293	294	295	296	297	298	299	300
198	199	200	201	202	203	204	205	206	207	208	209	210	211	212	213	214	215	216	217	218	219	220	221	222	223	224	225	226	227	228	229	230	231	232	233	234	235	236	237	238	239	240	241	242	243	244	245	246	247	248	249	250	251	252	253	254	255	256	257	258	259	260	261	262	263	264	265	266	267	268	269	270	271	272	273	274	275	276	277	278	279	280	281	282	283	284	285	286	287	288	289	290	291	292	293	294	295	29				

ov	-6		+11	5481	17
an	325	-9		448	11
er	141			147	11
uster	243			250	
in 10 km	20			9	
Polar	18	-42		182	
	88			199	
	22		+2	274	

1974	1,107	1.7	34	Indonesia	54	28
1975	1,304	6.1	-	Iran	54	28
1976	240.0	7.6	-	Japan & Singapore	54	28
1977	23.9	18	15.0	Kuwaiter & Mide	54	28
1978	2.65	-	-	Libyan (T)	54	28
1979	4.68	0.7	-	A	54	28
1980	38.2	0.2	13.9	US Ind.	54	28
1981	-	-	-	Mexico	54	28
1982	-	-	-	-	54	28

of the more  
the very  
to need  
to proc  
in th

306	54%	2262	3.4	14.8	Ward
312	247	962.8	4.3	25.9	74
32	19	6.6	-	-	Ward
124	13	311.8	1.8	14.6	Ward
225	18	2.18	8.0	30.5	Ward
225	16	0.08	8.2	28.1	Jones
225	27	65.5	5.8	27.7	Russell
178	68	230.4	4.9	16.6	04

Mr Remy Carr  
the WANO go  
and deputy K  
Electricité de F

488	361	2,546	2.1	28.0	Flint
489	147	236.7	5.0	—	Flint
716 <sub>2</sub>	5	867	—	—	Flint
716 <sub>3</sub>	38	27.5	4.8	—	Flint
716 <sub>4</sub>	34	8.22	—	—	Flint
725 <sub>1</sub>	87	39.8	4.8	10.8	Flint
725 <sub>2</sub>	54	35.1	—	—	Flint
731	33	39.8	12.3	—	Flint

...for the ...	362	-1	264
...to ...	327	-	231
...to ...	130	-	214
...to ...	122	-	162
...to ...	771	-1	179
...to ...	28	-	116
...to ...	18	-	23
...to ...	25	-	28
...to ...	259	-1	121

272	0.4	402.8	15.7	Zeno PV	
296	1.1	374.3	12.8	SPLIT W	
147	0.7	282.1	26.1	Cap	
100	0.7			Indochina Vietnam Bond	
107	0.7			Germany	
116	0.8	104.3	6.0	Schwabach Spill Res M	
75	0.8	68.5	7.8	Capital	
171	0.6	73.3	-3.9	Zeno Div PV	
				South American	

178	125	65.2
146	121	85.2
130	270.7	85.2
142	21.2	85.2
121	0.3	85.2
84	7.8	85.2
174	102	85.2
121	30	85.2
110.4	99	85.2
131	3.8	175.8

131	
229	
287	
21	
31	
35	
110nd	
719	

[illegible]

ov	-6		+11	5481	17
on 10 hnc	-6	325	-9	448	17
hater	-11	141	-	147	17
Prin.	-7	263	-	259	9
	-10	18	-12	182	19
	-8	88	-	199	19
AM	-2	22	-12	274	19

1974	1,107	1.7	34	Indonesia	54	28	
1975	1,304	6.1	-	Iran	54	28	
1976	240.0	7.6	-	Japan & Singapore	54	28	
1977	23.9	18	15.0	Kuwaiter & Mide	54	28	
1978	2	2.6	-	Libya (1)	54	28	
1979	5	4.6	0.7	-	54	28	
1980	88	38.2	0.2	13.9	US Ind.	54	28
1981	14	-	-	-	Mexico	54	28
					54	28	

of the more  
the very  
to need  
to proc  
in th

306	54%	2262	3.4	14.8	Ward
312	247	962.8	4.3	25.9	74
32	19	6.6	-	-	Ward
124	13	311.8	1.8	14.6	Ward
225	18	2.18	8.0	30.5	Ward
225	16	0.08	8.2	28.1	Jones
225	27	65.5	5.8	27.7	Russell
178	68	230.4	4.9	16.6	04

Mr Remy Carr  
the WANO go  
and deputy K  
Electricité de F

488	361	2,546	2.1	28.0	Flint
489	147	236.7	5.0	—	Flint
716 <sub>2</sub>	5	867	—	—	Flint
716 <sub>3</sub>	38	27.5	4.8	—	Flint
716 <sub>4</sub>	34	8.22	—	—	Flint
725 <sub>1</sub>	87	39.8	4.8	10.8	Flint
725 <sub>2</sub>	54	35.1	—	—	Flint
731	33	39.8	12.3	—	Flint

...ing for the ...	362	-1	264
...ing Ridge	327	-	231
...ing Grounds	130	-	214
...erents	162	-	162
...ing Pig	771	-1	179
...ing Night Inn	28	-	116
...erents	18	-	23
...ing / d G ...	25	-	25
...ing	259	-1	121

272	0.4	402.8	15.7	Zeno PV	
296	1.1	374.3	12.8	SPLIT W	
147	0.7	282.1	26.1	Cap	
100	0.7			Indochina Vietnam Bond	
107	0.7			Germany	
116	0.8	104.5	6.0	Schwabach Spill Res M	
75	0.8	68.5	7.8	Capitol	
171	0.6	73.5	-3.9	Zeno Div PV	
				South American	

178	125	65.2
146	121	85.2
130	270.7	13.8
145	21.2	0.3
121	1000.0	7.8
84	0.3	102
174	7.8	30
110.4	0.9	131
102.2	3.8	175.9
	14.0	

fuels and other factors over which the nuclear industry has little control.



## LONDON SHARE SERVICE

## INVESTMENT TRUSTS - Cont.

Share	Price	1993	1992	1991	1990	1989	1988	1987	1986	1985	1984	1983	1982	1981	1980	1979	1978	1977	1976	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962	1961	1960	1959	1958	1957	1956	1955	1954	1953	1952	1951	1950	1949	1948	1947	1946	1945	1944	1943	1942	1941	1940	1939	1938	1937	1936	1935	1934	1933	1932	1931	1930	1929	1928	1927	1926	1925	1924	1923	1922	1921	1920	1919	1918	1917	1916	1915	1914	1913	1912	1911	1910	1909	1908	1907	1906	1905	1904	1903	1902	1901	1900	1899	1898	1897	1896	1895	1894	1893	1892	1891	1890	1889	1888	1887	1886	1885	1884	1883	1882	1881	1880	1879	1878	1877	1876	1875	1874	1873	1872	1871	1870	1869	1868	1867	1866	1865	1864	1863	1862	1861	1860	1859	1858	1857	1856	1855	1854	1853	1852	1851	1850	1849	1848	1847	1846	1845	1844	1843	1842	1841	1840	1839	1838	1837	1836	1835	1834	1833	1832	1831	1830	1829	1828	1827	1826	1825	1824	1823	1822	1821	1820	1819	1818	1817	1816	1815	1814	1813	1812	1811	1810	1809	1808	1807	1806	1805	1804	1803	1802	1801	1800	1799	1798	1797	1796	1795	1794	1793	1792	1791	1790	1789	1788	1787	1786	1785	1784	1783	1782	1781	1780	1779	1778	1777	1776	1775	1774	1773	1772	1771	1770	1769	1768	1767	1766	1765	1764	1763	1762	1761	1760	1759	1758	1757	1756	1755	1754	1753	1752	1751	1750	1749	1748	1747	1746	1745	1744	1743	1742	1741	1740	1739	1738	1737	1736	1735	1734	1733	1732	1731	1730	1729	1728	1727	1726	1725	1724	1723	1722	1721	1720	1719	1718	1717	1716	1715	1714	1713	1712	1711	1710	1709	1708	1707	1706	1705	1704	1703	1702	1701	1700	1699	1698	1697	1696	1695	1694	1693	1692	1691	1690	1689	1688	1687	1686	1685	1684	1683	1682	1681	1680	1679	1678	1677	1676	1675	1674	1673	1672	1671	1670	1669	1668	1667	1666	1665	1664	1663	1662	1661	1660	1659	1658	1657	1656	1655	1654	1653	1652	1651	1650	1649	1648	1647	1646	1645	1644	1643	1642	1641	1640	1639	1638	1637	1636	1635	1634	1633	1632	1631	1630	1629	1628	1627	1626	1625	1624	1623	1622	1621	1620	1619	1618	1617	1616	1615	1614	1613	1612	1611	1610	1609	1608	1607	1606	1605	1604	1603	1602	1601	1600	1599	1598	1597	1596	1595	1594	1593	1592	1591	1590	1589	1588	1587	1586	1585	1584	1583	1582	1581	1580	1579	1578	1577	1576	1575	1574	1573	1572	1571	1570	1569	1568	1567	1566	1565	1564	1563	1562	1561	1560	1559	1558	1557	1556	1555	1554	1553	1552	1551	1550	1549	1548	1547	1546	1545	1544	1543	1542	1541	1540	1539	1538	1537	1536	1535	1534	1533	1532	1531	1530	1529	1528	1527	1526	1525	1524	1523	1522	1521	1520	1519	1518	1517	1516	1515	1514	1513	1512	1511	1510	1509	1508	1507	1506	1505	1504	1503	1502	1501	1500	1499	1498	1497	1496	1495	1494	1493	1492	1491	1490	1489	1488	1487	1486	1485	1484	1483	1482	1481	1480	1479	1478	1477	1476	1475	1474	1473	1472	1471	1470	1469	1468	1467	1466	1465	1464	1463	1462	1461	1460	1459	1458	1457	1456	1455	1454	1453	1452	1451	1450	1449	1448	1447	1446	1445	1444	1443	1442	1441	1440	1439	1438	1437	1436	1435	1434	1433	1432	1431	1430	1429	1428	1427	1426	1425	1424	1423	1422	1421	1420	1419	1418	1417	1416	1415	1414	1413	1412	1411	1410	1409	1408	1407	1406	1405	1404	1403	1402	1401	1400	1399	1398	1397	1396	1395	1394	1393	1392	1391	1390	1389	1388	1387	1386	1385	1384	1383	1382	1381	1380	1379	1378	1377	1376	1375	1374	1373	1372	1371	1370	1369	1368	1367	1366	1365	1364	1363	1362	1361	1360	1359	1358	1357	1356	1355	1354	1353	1352	1351	1350	1349	1348	1347	1346	1345	1344	1343	1342	1341	1340	1339	1338	1337	1336	1335	1334	1333	1332	1331	1330	1329	1328	1327	1326	1325	1324	1323	1322	1321	1320	1319	1318	1317	1316	1315	1314	1313	1312	1311	1310	1309	1308	1307	1306	1305	1304	1303	1302	1301	1300	1299	1298	1297	1296	1295	1294	1293	1292	1291	1290	1289	1288	1287	1286	1285	1284	1283	1282	1281	1280	1279	1278	1277	1276	1275	1274	1273	1272	1271	1270	1269	1268	1267	1266	1265	1264	1263	1262	1261	1260	1259	1258	1257	1256	1255	1254	1253	1252	1251	1250	1249	1248	1247	1246	1245	1244	1243	1242	1241	1240	1239	1238	1237	1236	1235	1234	1233	1232	1231	1230	1229	1228	1227	1226	1225	1224	1223	1222	1221	1220	1219	1218	1217	1216	1215	1214	1213	1212	1211	1210	1209	1208	1207	1206	1205	1204	1203	1202	1201	1200	1199	1198	1197	1196	1195	1194	1193	1192	1191	1190	1189	1188	1187	1186	1185	1184	1183	1182	1181	1180	1179	1178	1177	1176	1175	1174	1173	1172	1171	1170	1169	1168	1167	1166	1165	1164	1163	1162	1161	1160	1159	1158	1157	1156	1155	1154	1153	1152	1151	1150	1149	1148	1147	1146	1145	1144	1143	1142	1141	1140	1139	1138	1137	1136	1135	1134	1133	1132	1131	1130	1129	1128	1127	1126	1125	1124	1123	1122	1121	1120	1119	1118	1117	1116	1115	1114	1113	1112	1111	1110	1109	1108	1107	1106	1105	1104	1103	1102	1101	1100	1099	1098	1097	1096	1095	1094	1093	1092	1091	1090	1089	1088	1087	1086	1085	1084	1083	1082	1081	1080	1079	1078	1077	1076	1075	1074	1073	1072	1071	1070	1069	1068	1067	1066	1065	1064	1063	1062	1061	1060	1059	1058	1057	1056	1055	1054	1053	1052	1051	1050	1049	1048	1047	1046	1045	1044	1043	1042	1041	1040	1039	1038	1037	1036	1035	1034	1033	1032	1031	1030	1029	1028	1027	1026	1025	1024	1023	1022	1021	1020	1019	1018	1017	1016	1015	1014	1013	1012	1011	1010	1009	1008	1007	1006	1005	1004	1003	1002	1001	1000	999	998	997	996	995	994	993	992	991	990	989	988	987	986	985	984	983	982	981	980	979	978	977	976	975	974	973	972	971	970	969	968	967	966	965	964	963	962	961	960	959	958	957	956	955	954	953	952	951	950	949	948	947	946	945	944	943	942	941	940	939	938	937	936	935	934	933	932	931	930	929	928	927	926	925	924	923	922	921	920	919	918	917	916	915	914	913	912	911	910	909	908	907	906	905	904	903	902	901	900	899	898	897	896	895	894	893	892	891	890	889	888	887	886	885	884	883	882	881	880	879	878	877	876	875	874	873	872	871	870	869	868	867	866	865	864	863	862	861	860	859	858	857	856	855	854	853	852	851	850	849	848	847	846	845	844	843	842	841	840	839	838	837	836	835	834	833	832	831	830	829	828	827	826	825	824	823	822	821	820	819	818	817	816	815	814	813	812	811	810	809	808	807	806	805	804	803	802	801	800	799	798	797	796	795	794	793	792	791	790	789	788	787	786	785	784	783	782	781	780	779	778	777	776	775	774	773	772	771	770	769	768	767	766	765	764	763	762	761	760	759	758	757	756	755	754	753	752	751	750	749	748	747	746	745	744	743	742	741	740	739	738	737	736	735	734	733	732	731	730	729	728	727	726	725	724	723	722	721	720	719	718	717	716	715	714	713	712	711	710	709	708	707	706	705	704	703	702	701	700	699	698	697	696	695	694	693	692	691	690	689	688	687	686	685	684	683	682	681	680	679	678	677	676	675	674	673	672	671	670	669	668	667	666	665	664	663	662	661	660	659	658	657	656	655	654	653	652	651	650	649	648	647	646	645	644	643	642	641	640	639	638	637	636	635	634	633	632	631	630	629	628	627	626	625	624	623	622	621	620	619	618	617	616	615	614	613	612	611	610	609	608	607	606	605	604	603	602	601	600	599	598	597	596	595	5
-------	-------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	---















[illegible]



CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGE  
D-Mark remains weak

The D-Mark continued to weaken against most European currencies, though it managed to recoup some of its losses in late trading yesterday, writes *Comer Middelmann*.

The German currency's slippage was triggered by Tuesday's 9 basis-point drop in the Bundesbank's rate for two-week securities repurchase agreements which spurred talk that the Bundesbank has embarked on a more aggressive easing course.

"With the recession deepening, M3 headed back towards the target range and inflation set to fall below 3 per cent in the first half of next year, the economic fundamentals point to an acceleration of the easing course," said Mr Michael Burke, an economist with Citibank in London.

Still, most analysts said they did not expect to see a cut in Germany's leading discount and Lombard rates at today's meeting of the Bundesbank's central bank council.

The Belgian and French francs posted significant gains against the D-Mark, with the Belgian currency receiving an extra boost from a sharp cut in key money market rates which was seen to inject new life into the flagging Belgian economy.

Table with 3 columns: Currency, Bid, Ask. Includes Sterling, Swiss Franc, and others.

Table with 3 columns: Currency, Bid, Ask. Includes Sterling, Swiss Franc, and others.

Table with 3 columns: Currency, Bid, Ask. Includes Sterling, Swiss Franc, and others.

Table with 3 columns: Currency, Bid, Ask. Includes Sterling, Swiss Franc, and others.

Table with 3 columns: Currency, Bid, Ask. Includes Sterling, Swiss Franc, and others.

Table with 3 columns: Currency, Bid, Ask. Includes Sterling, Swiss Franc, and others.

Table with 3 columns: Currency, Bid, Ask. Includes Sterling, Swiss Franc, and others.

Table with 3 columns: Currency, Bid, Ask. Includes Sterling, Swiss Franc, and others.

Table with 3 columns: Currency, Bid, Ask. Includes Sterling, Swiss Franc, and others.

Table with 3 columns: Currency, Bid, Ask. Includes Sterling, Swiss Franc, and others.

Table with 3 columns: Currency, Bid, Ask. Includes Sterling, Swiss Franc, and others.

Table with 3 columns: Currency, Bid, Ask. Includes Sterling, Swiss Franc, and others.

Table with 3 columns: Currency, Bid, Ask. Includes Sterling, Swiss Franc, and others.

FINANCIAL FUTURES AND OPTIONS

Table with 3 columns: Contract, Bid, Ask. Includes various futures contracts.

Table with 3 columns: Contract, Bid, Ask. Includes various futures contracts.

Table with 3 columns: Contract, Bid, Ask. Includes various futures contracts.

Table with 3 columns: Contract, Bid, Ask. Includes various futures contracts.

Table with 3 columns: Contract, Bid, Ask. Includes various futures contracts.

Table with 3 columns: Contract, Bid, Ask. Includes various futures contracts.

Table with 3 columns: Contract, Bid, Ask. Includes various futures contracts.

Table with 3 columns: Contract, Bid, Ask. Includes various futures contracts.

Table with 3 columns: Contract, Bid, Ask. Includes various futures contracts.

Table with 3 columns: Contract, Bid, Ask. Includes various futures contracts.

Table with 3 columns: Contract, Bid, Ask. Includes various futures contracts.

Table with 3 columns: Contract, Bid, Ask. Includes various futures contracts.

Table with 3 columns: Contract, Bid, Ask. Includes various futures contracts.

Table with 3 columns: Contract, Bid, Ask. Includes various futures contracts.

Table with 3 columns: Contract, Bid, Ask. Includes various futures contracts.

Table with 3 columns: Contract, Bid, Ask. Includes various futures contracts.

Table with 3 columns: Contract, Bid, Ask. Includes various futures contracts.

MONEY MARKET FUNDS

Table with 3 columns: Fund Name, Bid, Ask. Includes various money market funds.

Table with 3 columns: Fund Name, Bid, Ask. Includes various money market funds.

Table with 3 columns: Fund Name, Bid, Ask. Includes various money market funds.

Table with 3 columns: Fund Name, Bid, Ask. Includes various money market funds.

Table with 3 columns: Fund Name, Bid, Ask. Includes various money market funds.

Table with 3 columns: Fund Name, Bid, Ask. Includes various money market funds.

Table with 3 columns: Fund Name, Bid, Ask. Includes various money market funds.

Table with 3 columns: Fund Name, Bid, Ask. Includes various money market funds.

Table with 3 columns: Fund Name, Bid, Ask. Includes various money market funds.

Table with 3 columns: Fund Name, Bid, Ask. Includes various money market funds.

Table with 3 columns: Fund Name, Bid, Ask. Includes various money market funds.

Table with 3 columns: Fund Name, Bid, Ask. Includes various money market funds.

Table with 3 columns: Fund Name, Bid, Ask. Includes various money market funds.

Table with 3 columns: Fund Name, Bid, Ask. Includes various money market funds.

Table with 3 columns: Fund Name, Bid, Ask. Includes various money market funds.

Table with 3 columns: Fund Name, Bid, Ask. Includes various money market funds.

Table with 3 columns: Fund Name, Bid, Ask. Includes various money market funds.

SHADOW THE CHANCELLOR advertisement featuring a small black box and text about currency forecasting.

MONEY MARKETS advertisement discussing Belgium's interest rate cuts and their impact on the market.

Base Lending Rates advertisement listing various banks and their interest rates for different currencies.



**CANADA**

Sales	Stock	High	Low	Close	Day	Sales	Stock	High	Low	Close	Day
TORONTO											
J.P. Morgan & Co. (NYSE: JPM)											
GATCO (NYSE: GATCO)											
35831	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35832	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35833	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35834	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35835	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35836	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35837	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35838	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35839	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35840	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35841	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35842	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35843	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35844	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35845	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35846	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35847	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35848	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35849	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35850	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35851	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35852	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35853	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35854	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35855	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35856	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35857	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35858	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35859	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35860	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35861	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35862	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35863	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35864	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35865	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35866	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35867	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35868	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35869	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35870	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35871	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35872	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35873	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35874	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35875	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35876	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35877	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35878	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35879	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35880	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35881	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35882	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35883	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35884	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35885	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35886	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35887	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35888	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35889	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35890	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35891	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35892	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35893	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35894	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35895	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35896	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35897	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35898	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35899	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35900	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35901	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35902	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35903	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35904	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35905	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35906	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35907	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35908	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35909	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35910	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35911	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35912	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35913	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35914	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35915	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35916	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35917	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35918	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35919	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35920	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35921	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35922	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35923	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35924	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35925	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35926	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35927	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35928	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35929	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35930	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35931	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35932	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35933	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35934	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35935	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35936	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35937	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35938	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35939	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35940	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
35941	2000	\$12	11 1/4	12	+ 1/4	11300	2000	\$12	11 1/4	12	+ 1/4
359											

[illegible]

# IS THIS YOUR OWN COPY OF THE FINANCIAL TIMES?

Or do you rely on seeing someone else's? Every day the FT reports on the topics *that matter to people doing business every day, in and from Europe.*

We cover the latest European, U.S., and international news, and analyse the implications from a European perspective. In fact you'll find far more than finance in the FT.

No surprise then, that the Financial Times is read by over four times as many senior European businessmen and women as any other international newspaper.\*

Make sure you're one of them by getting your own copy of the newspaper delivered daily to your office.

\*Source EBRIS 1991

Ta. Office Hart, Financial Times (Europe) GmbH, Nohelshauptplatz 5, 60116 Frankfurt/Main, Germany. Tel. +49 69 1 50850, TL 41a153, Fax. +49 69 366443.

## SPECIAL INTRODUCTORY SUBSCRIPTION.

### TWELVE FREE ISSUES DELIVERED TO YOUR OFFICE

To: Giffen Hart, Financial Times (Europe) GmbH, Nohelshauptplatz 5, 60116 Frankfurt/Main, Germany, Tel. +49 69 1 50850, TL 41a153, Fax. +49 69 366443

YES, I would like to subscribe to the Financial Times, and enjoy my first 12 issues free! I will allow up to 21 days before delivery of my first copy. Please enter my subscription for 12 months at the following rate\*:

Austria	ÖES 5,600	France	FFR 1,900	Luxembourg	LFR 12,500	Spain	PTS 59,000
Belgium	BFR 12,500	Germany	DM 12,000	Netherlands	DFL 550	Sweden	SEK 2,600
Denmark	DKS 3,150	Greece	DRG 32,000	Norway	NOK 2,500	Switzerland	SRG 600
Finland	FMG 3,500	Ireland	LIT 540,000	Portugal	ESP 57,000	Taiwan	TTL 135,000

☐ Bill me ☐ Charge my American Express/Discover/Club Card/Visa/Amecard/Amecard/Amecard

Expiry Date: \_\_\_\_\_

Signature: \_\_\_\_\_ Date: \_\_\_\_\_

\*Company rates are only valid for the country in which they are quoted. Subscriptions from overseas are subject to rates of exchange in pence. \*\*12 month subscription rate. Prices are exclusive of VAT and EU, and include postage and packing. Offer valid until 31st December 1991.

To subscribe to the FT in New Zealand contact New York Tel. 212 654 5000 Fax 212 654 5000 For East coast Tel. 212 254 1711 Fax 212 654 1712

**FINANCIAL TIMES**  
London & Worldwide Newspapers

## FAR MORE THAN FINANCE.




## NEW YORK STOCK EXCHANGE COMPOSITE PRICES

[illegible]

Continued on next page

TECHNOLOGY THAT WORKS FOR LIFE

**Samsung**  
**4 Head Hi-Fi Stereo VCR**



**Jog & Shuttle  
Auto Tracking**

**SAMSUNG**  
**ELECTRONICS**


**NB POWER**

the very least Russia is likely to need World Bank help if it is to proceed.

**SIR KEENE**, chairman of the WANO governing board and deputy general manager of EDF, said he was confident that France had little control.







# Profit-taking erodes gains in US stocks

## Wall Street

INVESTORS took some profits yesterday, after Tuesday's record-breaking gains, to leave US share prices slightly lower across the board at the halfway stage, writes Patrick Harverson in New York.

At 1 pm, the Dow Jones Industrial Average was down 5.59 at 3,705.18. The more broadly based Standard & Poor's 500 was down 1.50 at 465.24, while the Amex composite was 1.58 lower at 473.15, and the Nasdaq composite down 4.38 at 787.97. Trading volume on the NYSE was 187m shares by 1 pm.

The markets opened weaker.

MEXICAN equities fell back slightly in early trading after their recent record gains, with some profits being taken in Telcel. The IPC index was down 16.03 at 2,143.32 in turnover of 363m pesos.

Investors were also cautious as they awaited last night's NAFTA vote in the US.

with the Dow posting double-digit losses in the first hour of trading as investors took the opportunity to book some of the profits earned on the previous day, when the Dow broke through 3,700 for the first time in its history.

The main attention of dealers and investors remained the NAFTA vote in Congress, which was scheduled for late last night.

Since the weekend hopes have been rising that the House of Representatives will vote to approve the trade pact, but there was enough uncertainty surrounding the final outcome to persuade many participants in the markets to stay on the sidelines until after the result was known.

Bond prices were higher in early trading, which provided some support for stocks, but the Treasury gave back most of its gains soon after midday.

# Austerity package helps Brussels to record high

## EUROPE

A number of themes attracted attention yesterday in the absence of Frankfurt, which was closed for a holiday, writes Our Markets Staff.

BRUSSELS finished at a record high following a cut in two leading interest rates and the announcement by the government of its new austerity measures. The Bel-20 index added 21.84 to 1,397.76, but was off an intraday high of 1,406.42.

Turnover was some 350m. The government's plan included measures to control social spending, slow increases in wages and control unemployment. Among the day's performers, Petrofina rose 3.1% to 1.3, while Belfin rose 2.8% to 1.3, and Solvay 2.5% to 1.3.

AMSTERDAM fell back towards the close, with the CBS Tendency index closing down 0.6 at 137.0, after a day's high of 138.4.

KLM was again among the most active, slipping 1.1% to 1.38, on continued uncertainty about the Alcazar talks, and reports of further rumours concerning the choice of a US partner by the four European airlines involved.

Nedlloyd, the shipping group, hit a new year's high during the session on unconfirmed reports that Far Eastern container tariffs were to be increased. The shares finally settled up 1.40 at 115.30.

Polygram also hit a new intraday high for the year, 117.10, as more buyers came into the market, partly as a result of the developing interest in multimedia. The shares finally closed up 1.20 at 117.60.

Elsewhere, Nutricia, the food group, saw its price tumble 7 per cent after it said that it was recalling one of its products. The shares closed down 1.10 at 11.35.

PARIS was lifted by hopes of an interest rate cut, and by a stronger bond market. The CAC-40 index put on 33.14 or 1.5 per cent to 2,177.99.

## FT-SE Actuarial Share Indices

Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 1000	1362.18	1362.42	1363.85	1364.95	1365.28	1365.22	1364.68	1363.58
FT-SE Eurotrack 2000	1422.53	1421.27	1424.51	1424.28	1424.78	1424.82	1423.09	1423.11

Nov 10	Nov 11	Nov 12	Nov 13	Nov 14	Nov 15	Nov 16	Nov 17
FT-SE Eurotrack 1000	1353.28	1347.91	1339.42	1335.92	1334.90	1334.90	1334.90
FT-SE Eurotrack 2000	1418.20	1413.06	1412.00	1402.18	1403.42	1401.16	1401.16

More turnover figures were released to whet the appetites of investors, while Lyonnais des Eaux-Dumex added FF12 to FF538, helped by news that it had won a FF400m US contract.

Three new additions made their entry to the index yesterday, BNP, CLF and Promodis, showing respective losses of FF4.50 to FF294.20, FF6 to FF479 and FF51 to FF11.69. These companies replace Cap Gemini, Chargeurs and Club Med, and thereby increase the market's total capitalisation by some 5 per cent.

MILAN rallied late to finish higher on the first day of the new account, and the Comit index adding 3.23 at 537.36.

Banks were firm, helped by a short selling ban on stock in Credito Italiano ahead of the announcement of the privatisation price on December 4. Credito added L108 to L2,460, for a cumulative two-day rise of 9.2 per cent, while BCI was 1.227 ahead at L4,378.

Telecoms picked up after Tuesday's pressure. Sip added L111 to L3,121 and Stet was 1.73 higher at L3,644. Sme, the retailer rose L116 to L3,755, after a day's high of L3,990, on speculation about an offer for divisions which have not yet been privatised.

Mediocredito, trading ex-dividend and launching its rights issue, rose L183 to L1,519.11, also launching its capital increase, rose L21 to L4,555.

ZURICH was steady in moderate volume, awaiting the outcome of last night's NAFTA vote. The SMI index eased 1.3 to 2,711.

UBS bearers, up SF11 at SF1,298, were helped by the bank's optimistic statement on the outlook for this year and 1994. A SF17 rise to SF1,408 in Zurich Insurance registered shares was attributed to a new option issue and expiry of an old one.

Foreign demand for cyclical took BCB Brown Boveri up SF11 to a year's high of SF1,029. Alusuisse registered shares rose SF19 at SF432.

STOCKHOLM's advance was helped by a rally in Electrolux, the B shares gaining SKR18 at SKR305 on a 30 per cent rise in nine month profits. The Affarsvariden general index rose 1.3 to 1,399.7. OSLO rose in the wake of gains in domestic bonds, and a rise in the dollar which was good for exporters and oil stocks. The all share index rose 8.33 to 506.55.

Written and edited by W. J. Morgan.

## ASIA PACIFIC

# Hang Seng dives in London as New Zealand recovers

## Tokyo

INVESTORS failed to respond to Tuesday's approval of the political reform bill by a lower house parliamentary committee, and share prices moved lower in this trading, writes Emilio Terrazone in Tokyo.

The Nikkei average lost 134.41 at 18,108.71 on arbitrage linked selling after moving between 18,000.80 and 18,344.23. Volume was 216.5m shares, against 264m. Falls led rises by 624 to 330, with 195 issues unchanged, and the Topix index of all first section stocks shed 8.53 to 1,540.83. In London the ISE/Nikkei 50 index rose 1.18 to 1,445.01.

Traders said fears of a plunge in share prices had eased to some extent, the Topix index has not fallen far below the 1,530 level, currently regarded as a technical support point. Many investors are now focusing on whether Mr Morihiro Hosokawa, the prime minister, will announce any economic support measures during his meeting with President Bill Clinton on Friday.

However, Mr Alex Kimmont, a strategist at Morgan Stanley, warned that technical factors were still dampening sentiment, and said the Topix could fall by another 10 per cent.

Although underlying political fundamentals may improve, shares still face pressure from arbitrage selling.

Analysts reckon that arbitrageurs still hold up to 10 per cent of outstanding shares of some stocks in arbitrage positions, which will need to be sold in order to switch from the Nikkei 225 to the new 300.

Among the big blue chips, East Japan Railway closed unchanged at Y458,000, while Nippon Telegraph and Telephone fell Y10,000 to Y781,000.

Profit-taking depressed bank shares, which rose on index-linked buying on Tuesday. Industrial Bank of Japan fell Y10 to Y2,390, Dai-ichi Kangyo Bank Y20 to Y2,380 and Sumitomo Bank Y20 to Y2,340.

Large-capital issues were lower. Nippon Steel, the day's most active stock, slipped Y7 to Y327 and NKK Y2 to Y290.

Daikyo closed Y70 down at Y876 on further selling following an announcement earlier this week that it would post its first pre-tax loss ever for the full year to March.

Daihwa Paper dropped Y49 to Y991. The company's share price has been suffering since Mr Ryoei Saito, its ex-chairman, was arrested, allegedly for bribing politicians.

Autobacs Seven, an auto-parts maker, was the day's best performer, rising Y300 to Y13,400 due to the popularity of its car navigation systems.

In Osaka, the OSE average dipped 154.42 to 20,290.18 in volume of 15.2m shares. Nintendo, the video game maker, weakened Y90 to Y7,170.

## Roundup

WALL Street's overnight advances were lost on the Hong Kong market.

HONG KONG took profits in its own time, the Hang Seng index falling by 176.67, or 1.8 per cent, to 9,505.88. Turnover contracted from HK\$9,080m to HK\$8,040m and professionals said that selling pressure was not heavy.

However, London heard that Mr Barton Biggs, the Morgan Stanley strategist, had moderated his support for Hong Kong, and some said that the colony's weighting in the broker's global model portfolio had been cut by a couple of percentage points from its recent 7.2 per cent.

The indicated Hang Seng fell a further 332, or 3.4 per cent, to 9,185, and there were fears of worse to come when the domestic market opens today.

NEW ZEALAND recovered as the National party government gained one seat to give it 50 seats in New Zealand's 99-seat parliament. The NZSE-40 index finished 95.7, or 4.6 per cent, higher at 2,074.4.

Mr John Rattray at Ord Minnett said demand came from both foreign and domestic clients. Turnover was high at NZ\$90m, but not excessive.

Among market leaders, Telecom, which represents 23 per cent of the index, closed 34 cents stronger at NZ\$4.17 in good volume, and Brerley, which dropped plans for a controversial executive share scheme at its annual meeting on Tuesday, firmed 5 cents to NZ\$1.19.

AUSTRALIA bid strongly for banks as the All Ordinaries index moved forward 20.5 to 2,104.3.

The market reassessed Tuesday's profits from ANZ and, although net earnings of A\$246.5m were at the lower end of expectations, the shares eventually closed 29 cents, or 8.5 per cent, up at a year's high of A\$4.73.

SINGAPORE ended off the day's highs, but with the Straits Times Industrial index still 18.60 higher at 2,086.51.

SEOUL saw individual advances led in following institutional buying and the composite index closed 7.53 higher at 510.17. The financials index, however, declined 10.04 to 988.36 as investors avoided its highly priced constituents.

JAKARTA attained another 1993 high as the JKSE index rose 9.99 to 538.16. Here, banking stocks led the way, Bank Danamon putting up 100 to Rp5,400 and Bank Duta Rp5,000 to Rp5,750.

TAIWAN came off its intraday highs on a round of profit-taking. The weighted index lost a net 5.98 at 4,206.91, after reaching 4,246.66.

KUALA LUMPUR picked up slightly in uncertain trading, the composite index rising by 6.61 to 587.51.

Rothmans firmed M\$1.70 to M\$1.80 on approval of a restructuring plan from the Government and Securities Commission.

KARACHI fell back as investors took profits after the market's recent record run. The KSE index was finally down 21.49 at 1,760.51, after a day's low of 1,748.27.

# Mexico waits for news from Capitol Hill

## By John Pitt

Attention has remained firmly fixed throughout the week on the political machinations which have been taking place on Capitol Hill, Washington.

However, while it was by no means clear earlier yesterday that President Bill Clinton and his administration had gathered enough votes to ensure that the North American Free Trade Agreement would win US congress approval, the Mexican equity market has behaved as though last night's vote was a formality.

On five successive days Mexico's IPC index has reached record levels. But data supplied by the IFC tells a slightly different story: the country recorded a modest gain in dollar terms on the week, its improvement on the year to date standing at just above 18 per cent, similarly restrained in comparison to gains elsewhere in the region and the world.

Pakistan, for instance, saw the week's best performance

EMERGING MARKETS: IFC WEEKLY INVESTABLE PRICE INDICES									
Market	No. of stocks	Nov 12 1993	% Change over week	% Change over Dec '92	Local currency terms Nov 12 1993	% Change over week	% Change over Dec '92	Dollar terms Nov 12 1993	% Change over week
Latin America	(11)	835.12	+7.7	+44.0	512,448.78	+7.7	+44.3	835.12	+7.7
Argentina	(44)	231.51	+8.4	+86.2	63,014,156.88	+7.1	+2,821.6	231.51	+8.4
Brazil	(20)	470.37	+2.5	+12.4	773.21	+2.2	+20.6	470.37	+2.5
Colombia	(8)	517.93	-0.0	+21.8	744.00	-0.7	+21.7	517.93	-0.0
Mexico	(59)	785.94	+2.6	+18.3	1,095.06	+6.5	+20.6	785.94	+2.6
Peru	(7)	107.91	-2.7	+7.9	143.55	-2.1	+43.6	107.91	-2.7
Venezuela	(8)	599.86	+0.2	+9.7	1,311.89	+0.8	+40.5	599.86	+0.2
East Asia	(16)	118.21	+5.1	+18.2	127.84	+5.0	+27.8	118.21	+5.1
China	(130)	106.14	+1.2	+8.1	112.37	+1.0	+10.4	106.14	+1.2
Philippines	(11)	241.87	+0.9	+81.0	324.32	-3.1	+100.6	241.87	+0.9
Taiwan, China	(76)	88.32	+0.4	+19.5	88.10	+0.8	+28.3	88.32	+0.4
South Asia	(51)	95.44	+5.1	+1.8	105.54	+5.1	+10.5	95.44	+5.1
Indonesia	(31)	105.29	+1.8	+79.4	118.78	+1.5	+82.1	105.29	+1.8
Malaysia	(51)	280.32	+3.0	+71.4	283.64	+2.8	+67.1	280.32	+3.0
Pakistan	(8)	302.85	+5.9	+51.3	411.24	+9.8	+77.4	302.85	+5.9
Sri Lanka	(5)	184.25	+5.9	+84.2	175.99	+5.9	+78.0	184.25	+5.9
Thailand	(52)	398.92	+7.8	+73.2	401.89	+7.9	+72.3	398.92	+7.8
Europe/Middle East	(17)	215.85	-0.8	+10.5	232.51	-1.3	+23.9	215.85	-0.8
Greece	(5)	184.02	+0.4	+41.2	238.17	+1.1	+43.8	184.02	+0.4
Portugal	(16)	112.60	+2.2	+46.0	133.29	+1.2	+71.0	112.60	+2.2
Turkey	(31)	178.28	+2.0	+168.6	1,110.90	+4.4	+314.2	178.28	+2.0
Zimbabwe	(12)	178.76	-3.6	n.a.	189.32	-3.0	n.a.	178.76	-3.6

Prices are calculated at end-week, and weekly changes are percentage movements from the previous Friday. Base date: Dec 1980=100 except those noted where stated. 1 1991: 100; 2 1992: 100; 3 1993: 100; 4 1994: 100; 5 1995: 100; 6 1996: 100; 7 1997: 100; 8 1998: 100; 9 1999: 100; 10 2000: 100; 11 2001: 100; 12 2002: 100; 1 2003: 100; 2 2004: 100; 3 2005: 100; 4 2006: 100; 5 2007: 100; 6 2008: 100; 7 2009: 100; 8 2010: 100; 9 2011: 100; 10 2012: 100; 11 2013: 100; 12 2014: 100; 1 2015: 100; 2 2016: 100; 3 2017: 100; 4 2018: 100; 5 2019: 100; 6 2020: 100; 7 2021: 100; 8 2022: 100; 9 2023: 100; 10 2024: 100; 11 2025: 100; 12 2026: 100; 1 2027: 100; 2 2028: 100; 3 2029: 100; 4 2030: 100; 5 2031: 100; 6 2032: 100; 7 2033: 100; 8 2034: 100; 9 2035: 100; 10 2036: 100; 11 2037: 100; 12 2038: 100; 1 2039: 100; 2 2040: 100; 3 2041: 100; 4 2042: 100; 5 2043: 100; 6 2044: 100; 7 2045: 100; 8 2046: 100; 9 2047: 100; 10 2048: 100; 11 2049: 100; 12 2050: 100; 1 2051: 100; 2 2052: 100; 3 2053: 100; 4 2054: 100; 5 2055: 100; 6 2056: 100; 7 2057: 100; 8 2058: 100; 9 2059: 100; 10 2060: 100; 11 2061: 100; 12 2062: 100; 1 2063: 100; 2 2064: 100; 3 2065: 100; 4 2066: 100; 5 2067: 100; 6 2068: 100; 7 2069: 100; 8 2070: 100; 9 2071: 100; 10 2072: 100; 11 2073: 100; 12 2074: 100; 1 2075: 100; 2 2076: 100; 3 2077: 100; 4 2078: 100; 5 2079: 100; 6 2080: 100; 7 2081: 100; 8 2082: 100; 9 2083: 100; 10 2084: 100; 11 2085: 100; 12 2086: 100; 1 2087: 100; 2 2088: 100; 3 2089: 100; 4 2090: 100; 5 2091: 100; 6 2092: 100; 7 2093: 100; 8 2094: 100; 9 2095: 100; 10 2096: 100; 11 2097: 100; 12 2098: 100; 1 2099: 100; 2 2100: 100; 3 2101: 100; 4 2102: 100; 5 2103: 100; 6 2104: 100; 7 2105: 100; 8 2106: 100; 9 2107: 100; 10 2108: 100; 11 2109: 100; 12 2110: 100; 1 2111: 100; 2 2112: 100; 3 2113: 100; 4 2114: 100; 5 2115: 100; 6 2116: 100; 7 2117: 100; 8 2118: 100; 9 2119: 100; 10 2120: 100; 11 2121: 100; 12 2122: 100; 1 2123: 100; 2 2124: 100; 3 2125: 100; 4 2126: 100; 5 2127: 100; 6 2128: 100; 7 2129: 100; 8 2130: 100; 9 2131: 100; 10 2132: 100; 11 2133: 100; 12 2134: 100; 1 2135: 100; 2 2136: 100; 3 2137: 100; 4 2138: 100; 5 2139: 100; 6 2140: 100; 7 2141: 100; 8 2142: 100; 9 2143: 100; 10 2144: 100; 11 2145: 100; 12 2146: 100; 1 2147: 100; 2 2148: 100; 3 2149: 100; 4 2150: 100; 5 2151: 100; 6 2152: 100; 7 2153: 100; 8 2154: 100; 9 2155: 100; 10 2156: 100; 11 2157: 100; 12 2158: 100; 1 2159: 100; 2 2160: 100; 3 2161: 100; 4 2162: 100; 5 2163: 100; 6 2164: 100; 7 2165: 100; 8 2166: 100; 9 2167: 100; 10 2168: 100; 11 2169: 100; 12 2170: 100; 1 2171: 100; 2 2172: 100; 3 2173: 100; 4 2174: 100; 5 2175: 100; 6 2176: 100; 7 2177: 100; 8 2178: 100; 9 2179: 100; 10 2180: 100; 11 2181: 100; 12 2182: 100; 1 2183: 100; 2 2184: 100; 3 2185: 100; 4 2186: 100; 5 2187: 100; 6 2188: 100; 7 2189: 100; 8 2190: 100; 9 2191: 100; 10 2192: 100; 11 2193: 100; 12 2194: 100; 1 2195: 100; 2 2196: 100; 3 2197: 100; 4 2198: 100; 5 2199: 100; 6 2200: 100; 7 2201: 100; 8 2202: 100; 9 2203: 100; 10 2204: 100; 11 2205: 100; 12 2206: 100; 1 2207: 100; 2 2208: 100; 3 2209: 100; 4 2210: 100; 5 2211: 100; 6 2212: 100; 7 2213: 100; 8 2214: 100; 9 2215: 100; 10 2216: 100; 11 2217: 100; 12 2218: 100; 1 2219: 100; 2 2220: 100; 3 2221: 100; 4 2222: 100; 5 2223: 100; 6 2224: 100; 7 2225: 100; 8 2226: 100; 9 2227: 100; 10 2228: 100; 11 2229: 100; 12 2230: 100; 1 2231: 100; 2 2232: 100; 3 2233: 100; 4 2234: 100; 5 2235: 100; 6 2236: 100; 7 2237: 100; 8 2238: 100; 9 2239: 100; 10 2240: 100; 11 2241: 100; 12 2242: 100; 1 2243: 100; 2 2244: 100; 3 2245: 100; 4 2246: 100; 5 2247: 100; 6 2248: 100; 7 2249: 100; 8 2250: 100; 9 2251: 100; 10 2252: 100; 11 2253: 100; 12 2254: 100; 1 2255: 100; 2 2256: 100; 3 2257: 100; 4 2258: 100; 5 2259: 100; 6 2260: 100; 7 2261: 100; 8 2262: 100; 9 2263: 100; 10 2264: 100; 11 2265: 100; 12 2266: 100; 1 2267: 100; 2 2268: 100; 3 2269: 100; 4 2270: 100; 5 2271: 100; 6 2272: 100; 7 2273: 100; 8 2274: 100; 9 2275: 100; 10 22



**C**HINA stands today at the threshold of a new and more testing phase in the gargantuan task of bringing a creaking centrally planned economy into the modern era.

The country's second revolution, launched 15 years ago by Mr Deng Xiaoping, has wrought a remarkable transformation, both in improved living standards and in relations with the outside world.

But challenges abound. Not least of these lie in deepening the reforms that have brought China in little more than a decade from poverty and backwardness to being viewed as the world's next economic superpower.

Such claims may be premature in a country whose vast population remains predominantly peasant farmers. However, China's opening to the outside world has kindled extraordinary enthusiasm among foreign investors.

In the first three quarters of this year \$15bn was actually invested by foreigners, and \$83bn pledged in new contracts, according to official figures. Utilised foreign investment now stands at \$52bn since China's opened its doors to foreign business in 1978.

For all these promising indications, China, burdened by an unwieldy and impoverished state sector, is still far from achieving its goal of creating a market economy as it moves to the next, more complex, stage of its reforms.

These will be aimed at better regulating the raw entrepreneurial energies that have been unleashed and - perhaps more important - reasserting central control over increasingly unruly provinces where powerful local officials have been carving out their own small empires.

Mr Deng could hardly have anticipated the monumental changes that have overtaken China in the years since the third plenary session of the eleventh Central Committee in December 1978, when the reform drive was launched. But the words employed then have an historic resonance now. Casting off the burden of Maoist dogma, the party

China's economic reforms have brought huge changes and excited investors around the world, but as Tony Walker reports from Beijing, the biggest tests are yet to come

## Crucial stage of the reform programme

demanded "great growth in the productive forces," and observed prophetically that the modernisation of China would prove to be a "profound and extensive revolution."

The 85-year-old and enfeebled Mr Deng has remained true to those sentiments, arguing recently for a renewed commitment to growth even as his lieutenants were seeking to rein in a runaway economy growing at 13 per cent this year for the second year running.

**T**HE veteran communist, whose exhortation last year to "do it faster" prompted an explosion of commercial endeavour, may go down in history as one of the great advocates of accelerated economic activity to deal with potential political problems. Chinese leaders need look no further than across the Russian border to be reminded of the costs of economic stagnation.

The reformers have already travelled further down the road of economic change than even the greatest optimists might have predicted. However, the next steps, including an overhaul of the banking

system, far-reaching reforms of the tax regime, further trade liberalisation, and creative approaches to dealing with debt-ridden state enterprises, will require persistence and nerve.

Among the most critical tasks is to arm institutions like the People's Bank, the country's central bank, with the authority to assert reasonable control over the economy, and thus help China avoid the wild fluctuations from "boom" to "bust" that have bedevilled the reform phase.

China also has to find ways to ensure that adequate funds reach priority areas such as infrastructure. Serious bottlenecks in transport along with inadequate power supplies are a drag on economic activity.

In some ways this second stage of China's "second revolution" may prove more difficult politically than the first. Reform of state enterprises is already falling foul of powerful vested interests at the centre and in the provinces.

Mr Zhu Rongji, the reforming vice premier in charge of the economy, was obliged to ease credit restrictions in August and September after he had sought in mid-year to

impose stricter discipline on loss-making industries.

The episode raised doubts about the longer-term integrity of the anti-inflation fight, and also emphasised just how difficult is the task of enterprise reform.

Details of the new reform programme were endorsed at a meeting of the Central Committee held in Beijing this month. This was the Third Plenum of the Fourteenth Central Committee of the Chinese Communist Party, and officials, with an eye to history, drew bold comparisons with the Third Plenum of 1978.

They hoped that in the same way this latest event would act as a springboard for reform. It was also aimed at bolstering the reforming consensus among Party leaders lest any might be entertaining ideas of backsliding once Mr Deng goes to "meet Karl Marx" - his euphemism for death.

Although this gathering of the Central Committee - the Party's supreme policy-making body between sessions of its National Congress - emphasised collective leadership, factional differences were

Continued on next page

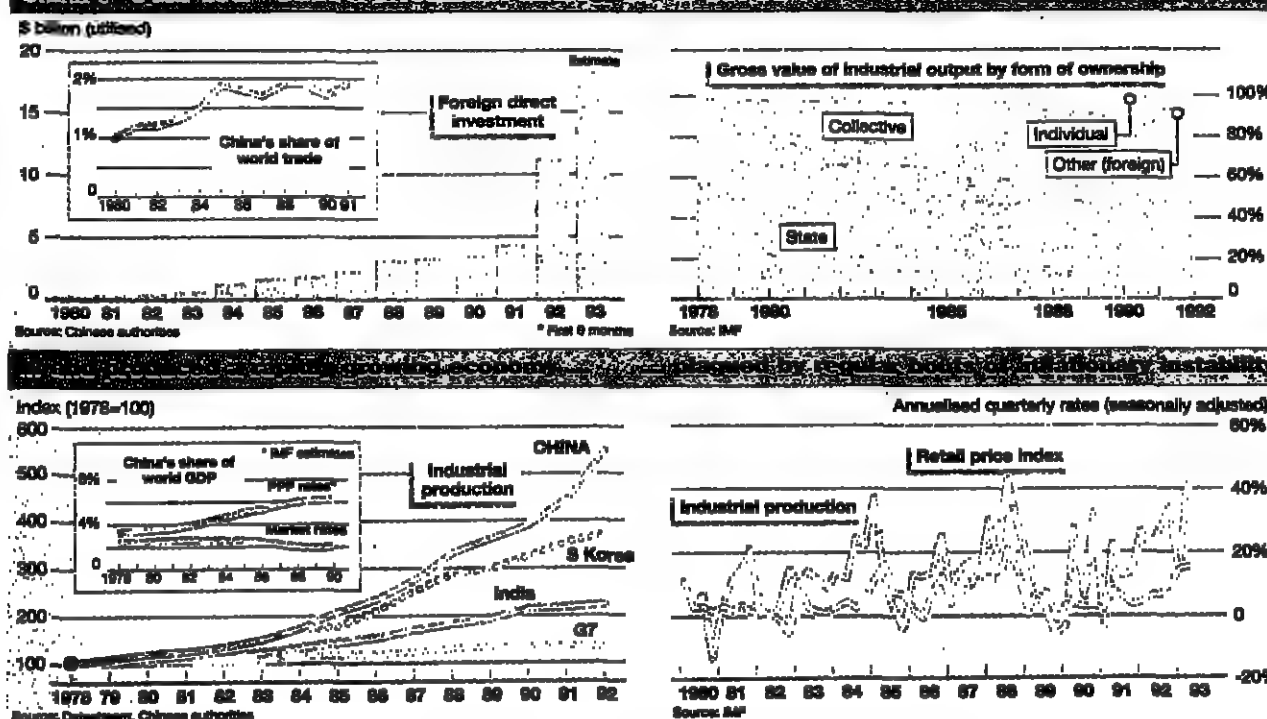
### FINANCIAL TIMES SURVEY

China's economic reforms: policies who make the decisions?	pages 2 to 4
China's economic reforms: the military regional profiles	pages 4 to 6
China's economic reforms: foreign investment trade	pages 6 to 8
China's economic reforms: state enterprises sector profiles	pages 8 and 9
China's economic reforms: agriculture, population, labour force, environment	pages 10 and 11
China's economic reforms: banking reform, securities markets	pages 11 and 12
China's economic reforms: telecommunications, power supplies, oil and gas industries	pages 12 and 13
China's economic reforms: township and village enterprises, the new rich	pages 13 and 14



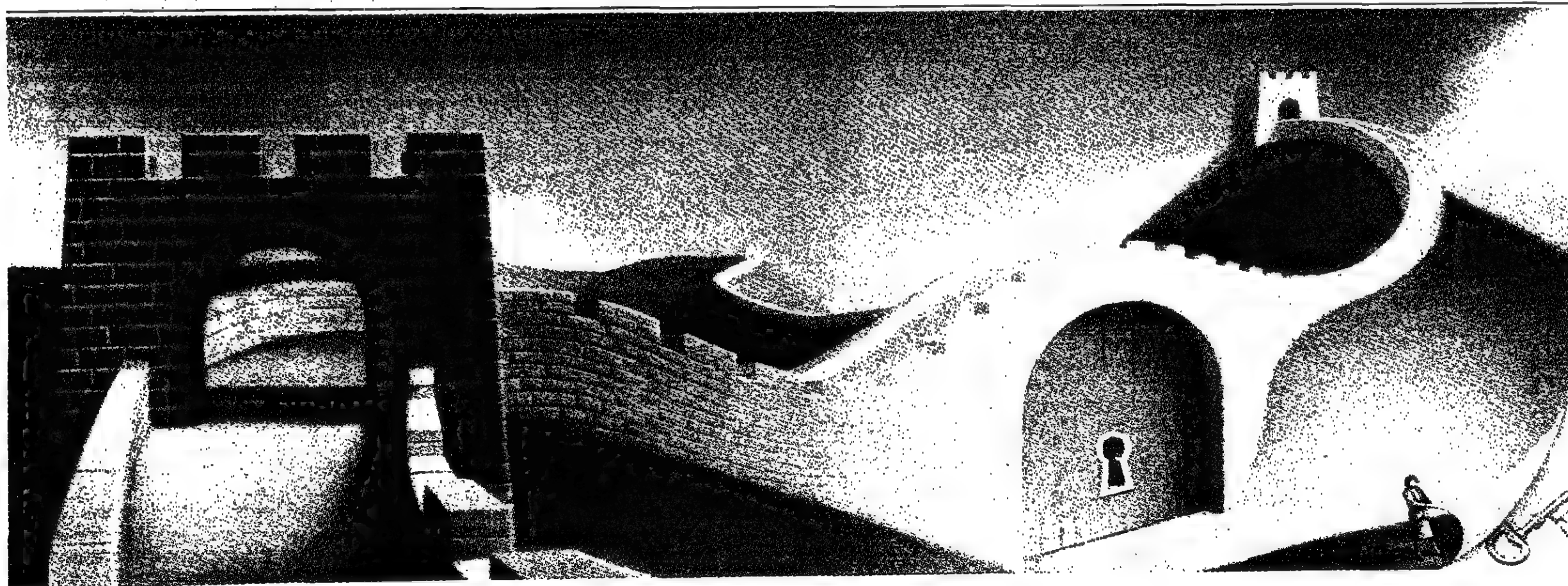
Trucks and cars jam the famous Bund of bustling Shanghai, China's second city

Picture by Cathryn Tramel



China's economic reforms are irreversible: economic growth since 1978 has averaged an astonishing eight to nine per cent a year and its share of world trade has doubled - see report by Edward Balls on page three of this survey. Survey graphics by Robert Hutchison; design, Robin Coles

MORE THAN BANKERS, BUSINESS PARTNERS



## THEY PROVIDE THE BEST MEANS TO CAPITALISE ON THE CHANGES IN CHINA.

Investing in the Chinese market presents me with significant opportunities.

What I need is a professional custodian to direct me.

Standard Chartered have been operating continuously in China for more than 134 years. So, Standard Chartered Equitor's experience gives them greater insight into how the market there works best for me.

I also get to deal directly with just one person. An expert who's always nearby, and not in a different time zone.

Standard Chartered  
**Equitor Group**

Naturally there are risks. But Equitor's sound judgement helps me minimize them. By getting me in earlier on, they maximize my return.

Equitor is the financial services division of the Standard Chartered Bank Group, delivering Greater Asian Custodial Services.

CALL NICHOLAS MENGES UK: TEL (+44 71) 280 6510 FAX (+44 71) 374 2350  
JOHN BUSHBY USA: TEL (1 312) 701 6940 OR (1 800) 654 6918 FAX (1 312) 701 6975  
K.K.Tse HONG KONG: TEL (852) 847 2783 FAX (852) 521 7765.



## CHINA 2

**M**r Zhu Rongji, the vice premier in charge of China's economy, has taken two large gambles since he assumed control of the central bank in July.

First, he enforced a tough austerity programme in the full knowledge that it would make him a number of enemies within the government and in the provinces and make it harder to force through the structural economic reforms.

Then, having taken the heat out of the inflationary boom, Mr Zhu bowed to pressure and eased monetary policy earlier than international lending institutions like the World Bank would have preferred. This risks a resurgence of inflation and an eventual hard landing.

The inflationary pressures which became evident in the first half of this year suggested then that a hard landing might be necessary. Last year's economic performance was impressive: economic growth of 12.8 per cent, inflation under 5 per cent and a current account surplus.

But prices for raw materials such as steel and cement showed sharp gains partly because of a boom in the real estate market as banks lent heavily, and often illegally, to property companies.

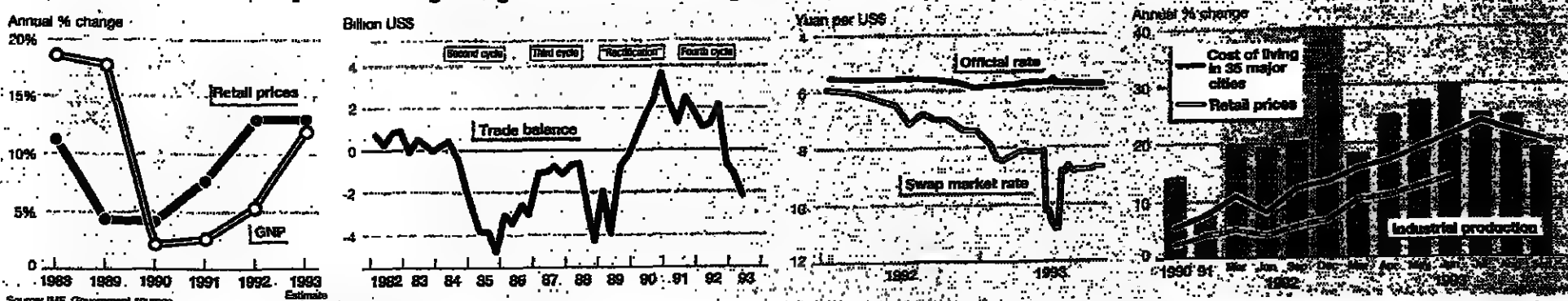
Economic growth was 14 per cent in the second quarter compared with a year before. In the same period, investment in fixed assets rose 63 per cent and inflation accelerated to 14 per cent nationwide and 21 per cent in the larger cities.

The government's 16-point plan, announced in July following a first, modest increase in interest rates in May, aimed to take the heat out of a growing speculative property boom. Many measures enforced government regulation which local bank branches and provincial governments had ignored. Up to 1,000 new development zones were closed by the middle of August.

The biggest economic shock came not from the further rise in interest rates, but an administrative order from the central bank in Beijing that illegal inter-bank loans should be repaid to state banks.

"The only way to tighten credit was to pull the firewood out of the stove," says Mr Lu Bafu, director of the State Council's Development Research Centre. But, unable to liquidate their real-estate lending, banks clamped down on lending to state enterprises,

China's overheated economy... means a growing trade deficit... but tighter credit has stabilised the currency... and is reducing inflationary pressures.



The government has eased monetary policy but inflation is still worryingly high, says Edward Balls

## Mr Zhu walks an economic tightrope

who receive 70 per cent of state banks loans and rely on credit for working capital.

Enterprise deposits at the banks fell by Yn28bn in June, Yn34bn in July and Yn10.6bn in August. Broad money supply contracted in the summer months, and the swap market exchange rate appreciated from its summer low.

The measures have restored some sort of order. Fixed asset investment, which grew by 68.5 per cent in the first eight months, actually fell by 10.4 per cent in August from July.

Growth of industrial output slowed in September to 19.1 per cent compared with the same month of 1992, compared with 23.6 per cent growth in the entire third quarter over the same quarter of 1992. Annual rate inflation in the 35 big cities was 20.7 per cent in September, down from 23.3 per cent in July, while prices of key commodities are falling - steel prices fell 34 per cent in the third quarter.

The effect of the credit squeeze was felt most severely by state enterprises, many of whom found themselves unable to pay wages and complained bitterly to regional and national officials that they were being unfairly treated. The result was strong political pressure on the central bank to ease credit.

An example of this view came from Mr Dong Fureng, a member of the standing committee of the National People's Congress. "Personally, I think Zhu Rongji's macro control measures should be more flexible," he said last month.

"Banks should quicken steps to provide loans to troubled enterprises."

Policy has, in fact, been eased progressively since the summer, as Mr Li Langqing, vice premier, confirmed recently. "There is no disagreement in the Chinese leadership," he said. "We are going

to loosen credit a little for profitable state enterprises and the agricultural sector."

Moreover, Mr Zhou Zhengqing, central bank deputy governor, told a Beijing newspaper in October that the central bank had increased the supply of base money by Yn10bn in August and September, com-

pared with Yn146bn in the same period last year.

"This should permit the banks to increase loans during the fourth quarter," he said, although credits would flow initially to profitable enterprises. Inefficient enterprises would first have to demonstrate that they had taken

steps to reduce reliance on credit. But the risk remains that Mr Zhu has eased too early.

Urban inflation is more than 20 per cent while demand pressures persist. The trade deficit rose to \$6.97bn in the first nine months, with import volumes up 29.9 per cent compared with

export growth of just 6.8 per cent. The World Bank estimates that China can sustain growth of 8 per cent a year without overheating, but the government is still expecting 12 per cent growth this year.

In short, the underlying inflationary momentum has probably been suppressed

Tony Walker profiles the movers and shakers in China's economy

## The meteoric rise of Zhu Rongji

**F**OR Zhu Rongji, China's senior vice-premier in charge of the economy, 'uneasily sits the crown,' as the saying goes.

The reformist Mr Zhu, who introduced a 16-point austerity programme mid-year, has entered some rough water after offending powerful vested interests in the state sector with his attempts to impose stricter financial discipline. But the 55-year-old electrical engineer is unlikely to be fazed by criticism if he believes he is on the right track. A native of Changsha in Hunan province close to the birthplace of Mao Zedong, Mr Zhu is known for a stubborn streak, and a willingness to take risks.

He has also experienced ups and downs in a bureaucratic career that began in 1961 as an official involved in central planning after graduating from Beijing's prestigious Qinghua University. In the late 1980s, Mr Zhu's career went into eclipse after he joined criticism

of the system in the "Hundred Flowers" campaign of 1957. During his years in the doldrums, which included a stint in the countryside for "re-education" during the Cultural Revolution, Mr Zhu remained nominally a deputy division chief of the State Planning Commission from 1983-1978.

In the last years of the Cultural Revolution he was transferred to the Ministry of Petroleum. Then in 1978, the year that Mr Deng Xiaoping, launched his economic revolution, Mr Zhu became director of the Industrial Economics Institute attached to the Chinese Academy of Social Sciences, an important Dengist "think tank."

There followed jobs with the State Economic Commission, president of the Economic Management Institute affiliated with his alma mater, Qinghua University, deputy Party-Secretary of Shanghai in 1987, and mayor in 1988.

reputation for getting things done as mayor of the city's largest city: he was known as "one chop" Zhu - a reference to the seal used by Chinese bureaucrats to signal approval.

In recognition of his sterling efforts in Shanghai, Mr Zhu was transferred to Beijing as a vice-premier in 1991, elevated to the seven member standing committee of China's ruling politburo in 1992, made senior vice-premier in charge of the economy in March this year, and concurrently People's Bank governor in mid-year. By any standards, he has been a meteoric rise, and has, inevitably, aroused jealousies.

### Lou Jiwei, the ideas man

**AMONG** Mr Zhu Rongji's core group of close advisers a key figure is Lou Jiwei, director of the Macroeconomic Department of the Commission for Restructuring the Economy.

While the 43-year-old Mr Lou's substantive position is with the Restructuring Commission, his more important role is that of "ideas man" in the Zhu kitchen cabinet dealing with economic issues.

Indeed, he is credited with a vital part in formulating the 16-point stabilisation programme of mid-year. The representative of an international lending institution says of Mr Lou that he is "very influential" and "liberal minded."

Like Mr Zhu, Mr Lou is a graduate of Qinghua university - he graduated in computer engineering - and, among his more recent tasks, he was head of the Shanghai Commission for Restructuring the Economy. This was during the period when Mr Zhu was mayor.

### Zhu Xiaohua, youthful adviser

**ZHU** XIAOHUA, the new deputy governor of the People's Bank, China's Central Bank, is another of Mr Zhu Rongji's youthful advisers, and like Mr Lou, these connections stem from associations formed in Shanghai in the late 1980s. The 44-year-old



Reformist Zhu Rongji has a reputation for getting things done



Lou Jiwei, the third-ranking vice-premier among five

Li Langqing, 58th Vice-premier, overseeing foreign trade

Mr Zhu served as vice-president of the People's Bank's Shanghai headquarters from 1987-1990. This was during Zhu Rongji's term as mayor.

A graduate of the Shanghai Institute of Finance, Mr Xiaohua was seconded to the International Monetary Fund from 1991-92. He returned to be deputy director of the economic section of Xinhua news agency in Hong Kong before his appointment to the People's Bank in July.

The Xinhua offices in Hong Kong are China's unofficial headquarters in the colony, and officials placed there are effectively Beijing's senior diplomatic representatives. Mr Zhu, described by a Chinese economist as "smart," is a native of Zhejiang province, south of Shanghai.

### Li Jilang has a crucial role

**LI** JILANG has the least public face of Mr Zhu's close staff, but according to a Chinese economist familiar with the workings of the vice-premier's office, Mr Li plays a crucial role as a personal assistant and speech-writer.

Mr Li, who is in his forties, has worked in recent years in the State Council's Development Research Centre, the Cabinet "think tank," and in the State Planning Commis-

State Planning Commission. Born in Shanghai, Mr Zou was trained as an engineer in the Soviet Union between 1948-55. He is fluent in Russian and speaks some English.

**Li Langqing's star is rising**

**THE** fifth-ranking vice-premier, Li Langqing is one of China's more impressive officials whose star appears to be rising. The urban Mr Li, 51, has overall responsibility for foreign trade, and education. Among his more important tasks is selling China to the outside world. He is frequently charged with the task of soothing foreign visitors.

In his previous role as Minister of Foreign Economic Relations and Trade (Mofert), he travelled widely. He speaks passable English. Much of his experience has been in the automotive sector. A graduate in enterprise management from Shanghai's prestigious Fudan University, he was trained at automotive plants in the Soviet Union in the 1950s.

Mr Li was appointed vice-premier in March. According to Chinese insiders he fought a successful rearguard action to stop the powerful Trade Ministry (now called the Ministry of Foreign Trade and Economic Cooperation - Motec) from being dismembered.

### Zou Jiahua: wide connections

**ZOU** JIAHUA, the third ranking vice-premier among five behind Premier Li Peng and Mr Zhu Rongji, appears to have seen his influence diminished recently, but with his wide Party and bureaucratic connections his present lack of prominence may be temporary.

The 67-year-old Mr Zou, married to the adopted daughter of the late Marshal Ye Jianying, one of the heroes of the Communist revolution, and is a son of Zou Taofen, a famous intellectual and journalist from the Shanghai of the 1930s.

His responsibilities include industry and the State Planning Commission which is seen as a haven for officials antipathetic to Mr Zhu's reformist zeal. But the Shanghai-born Mr Zou himself is regarded as a moderate with liberalising tendencies. His long experience in the Chinese bureaucracy includes stints as Minister of Machinery and Electronics and director of the

### Wu Yi: "a smart, tough bargainer"

**THE** 55-year-old head of the Ministry of Foreign Trade and Economic Co-operation (Motec), Wu Yi may not be the highest-ranking female in the hierarchy, but her "trade minister" role gives her the most prominence. Appointed minister in March this year, Ms Wu is regarded as one of the younger breed of officials more likely to succeed. She first came to international notice when negotiating trade agreements with the US. Her opposite number, Carla Hills - the US special trade representative - said of her negotiating partner that she was a "smart and tough bargainer."

Trained as a petroleum engineer in Beijing, Ms Wu spent 25 years in the petroleum industry, most of them working in refineries. A Xinhua dispatch listed her hobbies as tennis, golf, singing and reading Tolstoy, Hugo and Balzac. Mr Wu is unmarried.

## Challenges for China's rulers

CONTINUED FROM PAGE ONE

unlikely to be far below the surface. Chinese leaders are now fully engaged in manoeuvring for power in preparation for the post-Deng era.

The party can ill afford to be distracted, since it faces challenges on many fronts. Not least of these is the widespread public perception that, bereft of new ideas and new faces, it is less relevant. Attempts to shore it up by engaging in campaigns like this year's anti-corruption drive are hardly convincing. In the end, the party's survival will depend not on propaganda but on the ability of China's rulers to continue delivering improved living standards.

For the time being, political liberalisation has been ruled out, but inevitably, the sheer pace of economic change is eroding the party's ability to assert control as before. Faint voices can also be heard advocating greater pluralism, although political dissent continues to be stamped upon.

Among China's supreme challenges is to deal with the widening income gap between prosperous coastal regions and the impoverished hinterland, and also between peasant farmers and urban dwellers.



Chinese patriarchy in a rare public appearance, Deng Xiaoping, now 88, with his daughter, Deng Nan, visited Shanghai in 1992. Deng launched China's second revolution, 15 years ago - with remarkable results

With surplus labour of 100m among China's 900m peasants, there is no room for complacency.

Widespread peasant unrest this year - more than two hundred separate incidents had been reported by mid-year - unnerved the leadership, and prompted an urgent review of measures to improve the farmers' lot, including prompt payment of money owed for produce acquired by the state. Older generation Chinese leaders had not forgotten that it was the peasants who were the footsoldiers of the revolution.

While domestic issues, including the succession struggle and attempts to bring the economy under control with-

out risking severe retrenchment, have tended to preoccupy the leadership, other concerns have also intruded. China's spirited but unsuccessful campaign to secure the 2000 Olympics for Beijing would have reinforced among senior officials the realisation that engagement with the outside world will never be easy. Human rights issues, including memories of the Tiananmen square massacre of 1989, almost certainly helped to torpedo the Chinese bid. But these officials, would understand that China's ambitions to be a world power, economically and politically, by early next century mean that retreat into brooding isolation has

long ceased to be an option. Trade issues, including China's application to re-join the General Agreement on Tariffs and Trade and its efforts to preserve its Most Favoured Nation trading status with the US, make it imperative that Beijing strike out even more boldly into the international mainstream.

Among promising developments is the decision of Mr Jiang Zemin, China's president, to attend an Asia Pacific Economic Co-operation leaders' conference this week in Seattle. President Clinton and Mr Jiang have much to talk about, not least how to place Sino-US relations on a more business-like basis, and thus avoid the risk of rupture over issues ranging from human rights to arms proliferation.

If the early 21st century is to be the era of the Pacific, there is hardly a more important relationship than that between the remaining superpower and a rapidly modernising state with more than one-fifth of the world's population and economic ambitions to match.

Centres of power see page 10

**SHANG YE XIAN FENG**  
THE BUSINESS TO BUSINESS  
MAGAZINE FOR CHINA

It is now widely accepted that China offers probably the most exciting potential of any market in the world today. Published bi-monthly in Chinese with a circulation to senior officials in both the industrial sector and government departments, *Shang* magazine offers direct access for marketing Western technology and services. Whether it is advertising a corporate message or simply advertising for a suitable agent, please call us for further information.

**REGIONS PUBLISHING**  
194 Old Brompton Road, London SW5 0AW, England.  
Telephone: 071 835 2183 Fax: 071 270 6245

**商業先鋒**

**FT SURVEYS**

**Forthcoming surveys on Asia**

Vietnam 30th November 1993  
Thailand 6th December 1993

For further information please contact:  
Samantha Telfer  
Financial Times  
One Southwark Bridge  
London  
SE1 9HL

Tel: 071 873 3050  
Fax: 071 873 3595

**HEBEI TEXTILES**

Making a whole world of fabrics

**BUSINESS SCOPE:**  
Cotton, rayon, polyester, polyester-cotton, silk, linen, woolen, mixed-fibers fabrics and many more.

**Hebei Textiles Import & Export Corporation**

138-1 Xin Hua East Rd, Shijiazhuang, Hebei, China  
Tel: (311) 745735  
Fax: (311) 752212  
Tlx: 26228 HBTECH CN  
Cable: CHINATEX SHIJIAZHUANG

**NB POWER**

the very least Russia is likely to need World Bank help if it is to proceed in the Ukraine. unable and

Mr Henry... board the WANO governing board and deputy general manager of Electricite de France, told the fuels and other... which the nuclear industry has little control.



## ■ ECONOMIC REFORM

# The cage opens and the bird learns to fly

But China's economic flight path will remain erratic for some years, writes Edward Balls

THE "bird in the cage" was how China's leadership described its approach to economic reform in the early 1980s: the nurturing of fledgling market forces within an overall central plan. But, as the bars of this cage have been progressively dismantled, China's economic bird has stretched its wings.

Economic growth since 1978 has averaged an astonishing 8.9 per cent a year, the mushrooming of collective enterprises has reduced the share of the old state enterprises in total employment from 81 per cent in 1978 to less than 50 per cent today, China's share of world trade has doubled and 300m people have been released from absolute poverty.

Nor has this new economic freedom been concentrated in a few southern and coastal provinces. From Guangdong in the south, past Jiangsu province on the east coast to Jilin province in the north, the evidence of dynamic economic change is evident to the eye: in the rows of advertising hoardings which line the streets of northern Tianjin, the construction

cranes which dominate the Guangzhou skyline or the congested streets and overflowing market stalls of Shanghai.

Yet the dismantling of the planning cage, and the decentralisation of economic decision-making, have caused severe economic and political difficulties for the government in Beijing. The next phase of reforms needs to find reformist solutions to the problems of growing inequality and macroeconomic instability if development is to continue at the same pace.

Decentralisation has been the driving force behind China's economic dynamism. Reforms have occurred step-by-step, often province by province, with liberalisation occurring first in agriculture and only later in the banking and state enterprise sectors. The

rapid output response to the decentralisation of farming kick-started reform, generating a substantial pool of savings which enabled local governments to encourage rapid growth in rural manufacturing.

Equally important was the decision to allow selected provincial governments to set up development zones, offering tax and duty concessions to exporters and foreign investors. Again, the response in terms of export growth and, later, the volume of foreign direct investment was dramatic.

This explicitly regional and decentralised approach has been important for a number of reasons: the central government has been able to test deregulation in particular provinces; provinces have been

keen to compete with each other to attract investment; all have had strong incentives to encourage local enterprise and thus expand their own tax base.

But this regional approach has also caused problems. By encouraging rapid growth in the southern and coastal provinces, the Chinese government has allowed the growth of wide income gaps between provinces. The World Bank estimates that 100m people still live in poverty, almost entirely in rural areas and more often in northern and western provinces where growth in rural enterprise has been much less dramatic.

Beijing's reformers face, as a result, pressure from poorer provinces for aid from the centre combined with a large "floating" labour force which,

they say, threatens China's sacred "social stability". But, by allowing richer provinces more control over their own tax base and more power to offer tax concessions, the centre has been less able to redistribute revenue for spending on education and health.

THE most immediate problem for Beijing is macroeconomic instability. China does not have the social and physical infrastructure to sustain growth rates in double figures. But, without sophisticated monetary and fiscal levers, the central government has not had the means to keep growth at a sustainable pace. Each time the bird has soared higher, it has fallen back to earth with a bigger, reform-threatening thud. The overheating in the first

six months of this year illustrates the problem. Provincial governments and local central bank branches responded to last year's southern tour by Deng Xiaoping by effectively ignoring restrictions on credit creation. Rapid growth and real estate investment in urban and coastal regions was quickly followed by inflation as infrastructure bottlenecks developed and raw material prices soared.

While the central bank had lost control of credit creation, the government could not quickly raise taxes or cut spending in the overheating provinces. For all the government and the World Bank's talk of "indirect" measures such as interest rate increases, the government had no effective means, short of a blunt across-the-board clampdown,

to slow the economy. Fortunately, this time the clampdown was enforced by reformers rather than conservatives.

The need to develop more sophisticated policy levers poses a dilemma for reformers. Curing this boom-bust cycle requires a re-centralisation of economic power, particularly over monetary and fiscal policy. But, if reform is to progress, this re-centralisation must occur with the support of the richer provinces and without blunting China's regional dynamism. For this reason, vice-premier Zhu Rongji's determination to avoid a hard landing which would threaten support for planned reforms of the central bank, fiscal policy and the banking sector.

But Mr Zhu's task is more complicated. As the economy has developed, the step-by-step

approach to reform has become much harder. The central bank will not be able to use monetary policy effectively until the banking sector acts competitively. The banks cannot lend commercially until they are freed from the need to support loss-making state enterprises. But these state enterprises remain the main source of welfare services - housing, health and pensions. The state cannot allow them to go bankrupt, and workers dare not change jobs, until a new state welfare structure has been constructed outside the enterprise sector, a task which has only just begun.

In short, the levers of macroeconomic control in China will remain difficult to use for fine tuning. Even if Mr Zhu succeeds in avoiding a hard landing and can reassert the central bank's authority, it seems doubtful that China has seen the last of its boom-bust cycles. The economy is now almost certainly too open, and market forces too deeply embedded, for China's bird to be re-caged. But its flight path will remain erratic for some years.

## ■ ECONOMIC DECISION-MAKING

## An exhaustive and wearying process



Yunnan delegates: budget speeches prove too much for one official at the National People's Congress in Beijing's Great Hall

in China. The process remains cumbersome, owing more to tradition than to modern methods of economic management, even in these days of glib use by Chinese officials of economic jargon that would have no place in Marxist textbooks.

Implementation of the austerity programme after problems of overheating surfaced last year, began effectively at a work conference held last December in Beijing and presided over by Mr Jiang Zemin, the general secretary of the Communist party. But it was not until May this year that alarm bells really began ringing at the centre, and this was after Mr Liu and his fellow ministers reported back on the extent of the problem.

Much time had been wasted since the Beijing conference, thus risking a more severe retrenchment than might have been necessary if prompt action had been taken. When the state council, China's cabi-

net, met in May to consider a report of the state planning commission, time for action was already overdue. Indeed, there was little argument at that meeting about the need for drastic measures to calm the economy, and to put a stop to the rot at provincial level that was eating away at Beijing's control, and playing havoc with central government finances.

The state council laid down broad proposals for bringing order to the economy, and these were passed on to the standing committee of the Communist party's ruling politburo for approval. But it was left to Mr Zhu Rongji, as the senior Vice-Premier in

charge of the economy to formulate detailed plans. These were the product of consultations among key economic policy-making elements of government, such as the People's Bank and the finance and trade ministries, and also among the various commissions and agencies concerned with the economy.

These include, apart from the State Planning Commission, the Economic and Trade Commission, the Commission for Economic Restructuring, and the Development Research Centre under the state council. Another important element in the decision-making process that spawned the 16-point austerity plan and the proposed

reforms of the financial sector was advice from international financial institutions such as the World Bank and International Monetary Fund. A conference, jointly organised by the World Bank and the Commission for Economic Restructuring, held in June in the northern city of Dalian helped refine some of the ideas that were being formulated by the bureaucracy.

LOSER consultation with international institutions increasingly is a feature of Chinese decision-making. Ultimately, however, recommendations and ideas were distilled by a body which tends

not to appear on organisational charts, that is, the Central Committee's leading group on finance and the economy presided over by Mr Zhu.

This supra-ministerial organisation, effectively signs off on key economic policy decisions which are then referred to the Politburo and State Council for formal approval.

The process by which economic decisions are made in China, especially where there might be risk of social and economic dislocation, is exhaustive and exhausting.

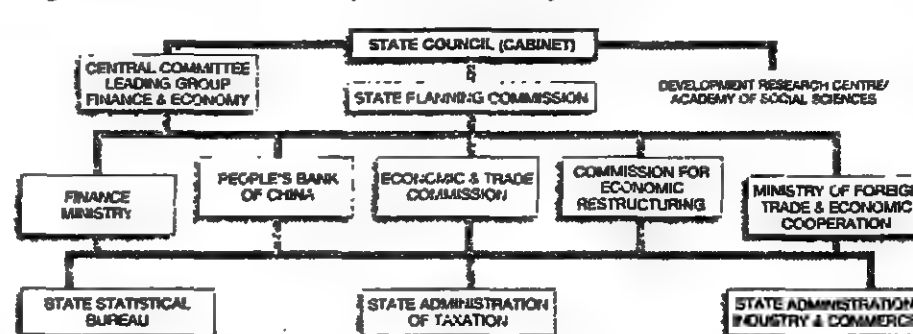
Like any bureaucracy, China's is riven by competing ambitions and policy differences.

Factional rivalries among leadership contenders are often played out in the musty corridors of the ministries, commissions and agencies listed above.

While Mr Zhu appears shrewdly to have strengthened his hand over key ministries and agencies like the People's Bank of which he is the governor, he still faces significant opposition from conservatives in bodies such as the State Planning Commission, whose own previously all-powerful role has been diminished by the market reforms.

Tony Walker

## Key economic ministries, commissions, bureaux



## BARINGS IN CHINA

### Merchant Banking

Baring Brothers & Co. is a leading manager and underwriter of international equity issues by Chinese companies. It also advises foreign companies on acquisitions and investment within China.

### International Stockbroking

Baring Securities was the first international stockbroker to publish research on China's securities markets and is one of the first three international brokers to be allocated a special seat on the Shanghai Stock Exchange.

### International Fund Management

Baring Asset Management created the first China fund in 1986 - the US\$70 million China & Eastern Investment Company Limited, which is listed on the London and Hong Kong Stock Exchanges, and the US\$125 million Greater China Fund which has been listed on the New York Stock Exchange since 1992.



**BARINGS**

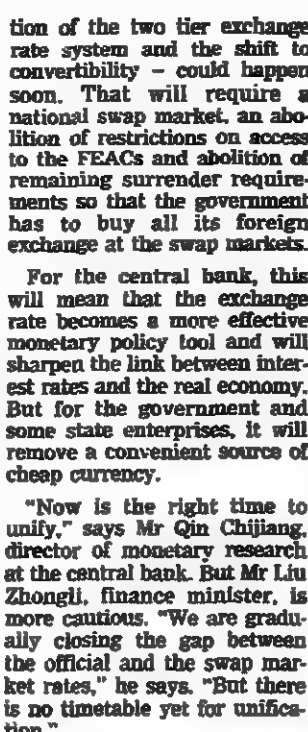
Barings plc, 8 Bishopsgate, London EC2N 4AE  
Tel: 071-280 1000 Fax: 071-283 2633




## ■ FISCAL POLICY/TAX REFORM

# A decade of radical changes

The Tianjin swap centre is one in a national network of 100 regional FEACs, established in 1987 when the government moved officially to a dual exchange rate system, and which today form the backbone of what has become a relatively free floating foreign exchange market. Reform began a decade ago when the government relaxed rules



Yet, despite this year's difficulties, many observers believe that the government's stated next stage of reform — abol-



To: \_\_\_\_\_  
 From: \_\_\_\_\_  
☐ I prefer not to receive promotional mailings from other companies
 DPT 95

# Jostling for the Deng inheritance

whomever emerges on top, however, and ultimately the army remains the guarantor of party authority. The professionalisation of military ranks is not changed that.

**Tony Walker**

DKB. What we know can help you succeed.

**DAISUKI KANEKO**


[illegible]

1997, 1998, 1999, 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019, 2020, 2021, 2022, 2023, 2024, 2025, 2026, 2027, 2028, 2029, 2030, 2031, 2032, 2033, 2034, 2035, 2036, 2037, 2038, 2039, 2040, 2041, 2042, 2043, 2044, 2045, 2046, 2047, 2048, 2049, 2050, 2051, 2052, 2053, 2054, 2055, 2056, 2057, 2058, 2059, 2060, 2061, 2062, 2063, 2064, 2065, 2066, 2067, 2068, 2069, 2070, 2071, 2072, 2073, 2074, 2075, 2076, 2077, 2078, 2079, 2080, 2081, 2082, 2083, 2084, 2085, 2086, 2087, 2088, 2089, 2090, 2091, 2092, 2093, 2094, 2095, 2096, 2097, 2098, 2099, 2100, 2101, 2102, 2103, 2104, 2105, 2106, 2107, 2108, 2109, 2110, 2111, 2112, 2113, 2114, 2115, 2116, 2117, 2118, 2119, 2120, 2121, 2122, 2123, 2124, 2125, 2126, 2127, 2128, 2129, 2130, 2131, 2132, 2133, 2134, 2135, 2136, 2137, 2138, 2139, 2140, 2141, 2142, 2143, 2144, 2145, 2146, 2147, 2148, 2149, 2150, 2151, 2152, 2153, 2154, 2155, 2156, 2157, 2158, 2159, 2160, 2161, 2162, 2163, 2164, 2165, 2166, 2167, 2168, 2169, 2170, 2171, 2172, 2173, 2174, 2175, 2176, 2177, 2178, 2179, 2180, 2181, 2182, 2183, 2184, 2185, 2186, 2187, 2188, 2189, 2190, 2191, 2192, 2193, 2194, 2195, 2196, 2197, 2198, 2199, 2200, 2201, 2202, 2203, 2204, 2205, 2206, 2207, 2208, 2209, 2210, 2211, 2212, 2213, 2214, 2215, 2216, 2217, 2218, 2219, 2220, 2221, 2222, 2223, 2224, 2225, 2226, 2227, 2228, 2229, 2230, 2231, 2232, 2233, 2234, 2235, 2236, 2237, 2238, 2239, 2240, 2241, 2242, 2243, 2244, 2245, 2246, 2247, 2248, 2249, 2250, 2251, 2252, 2253, 2254, 2255, 2256, 2257, 2258, 2259, 2260, 2261, 2262, 2263, 2264, 2265, 2266, 2267, 2268, 2269, 2270, 2271, 2272, 2273, 2274, 2275, 2276, 2277, 2278, 2279, 2280, 2281, 2282, 2283, 2284, 2285, 2286, 2287, 2288, 2289, 2290, 2291, 2292, 2293, 2294, 2295, 2296, 2297, 2298, 2299, 2300, 2301, 2302, 2303, 2304, 2305, 2306, 2307, 2308, 2309, 2310, 2311, 2312, 2313, 2314, 2315, 2316, 2317, 2318, 2319, 2320, 2321, 2322, 2323, 2324, 2325, 2326, 2327, 2328, 2329, 2330, 2331, 2332, 2333, 2334, 2335, 2336, 2337, 2338, 2339, 2340, 2341, 2342, 2343, 2344, 2345, 2346, 2347, 2348, 2349, 2350, 2351, 2352, 2353, 2354, 2355, 2356, 2357, 2358, 2359, 2360, 2361, 2362, 2363, 2364, 2365, 2366, 2367, 2368, 2369, 2370, 2371, 2372, 2373, 2374, 2375, 2376, 2377, 2378, 2379, 2380, 2381, 2382, 2383, 2384, 2385, 2386, 2387, 2388, 2389, 2390, 2391, 2392, 2393, 2394, 2395, 2396, 2397, 2398, 2399, 2400, 2401, 2402, 2403, 2404, 2405, 2406, 2407, 2408, 2409, 2410, 2411, 2412, 2413, 2414, 2415, 2416, 2417, 2418, 2419, 2420, 2421, 2422, 2423, 2424, 2425, 2426, 2427, 2428, 2429, 2430, 2431, 2432, 2433, 2434, 2435, 2436, 2437, 2438, 2439, 2440, 2441, 2442, 2443, 2444, 2445, 2446, 2447, 2448, 2449, 2450, 2451, 2452, 2453, 2454, 2455, 2456, 2457, 2458, 2459, 2460, 2461, 2462, 2463, 2464, 2465, 2466, 2467, 2468, 2469, 2470, 2471, 2472, 2473, 2474, 2475, 2476, 2477, 2478, 2479, 2480, 2481, 2482, 2483, 2484, 2485, 2486, 2487, 2488, 2489, 2490, 2491, 2492, 2493, 2494, 2495, 2496, 2497, 2498, 2499, 2500, 2501, 2502, 2503, 2504, 2505, 2506, 2507, 2508, 2509, 2510, 2511, 2512, 2513, 2514, 2515, 2516, 2517, 2518, 2519, 2520, 2521, 2522, 2523, 2524, 2525, 2526, 2527, 2528, 2529, 2530, 2531, 2532, 2533, 2534, 2535, 2536, 2537, 2538, 2539, 2540, 2541, 2542, 2543, 2544, 2545, 2546, 2547, 2548, 2549, 2550, 2551, 2552, 2553, 2554, 2555, 2556, 2557, 2558, 2559, 2560, 2561, 2562, 2563, 2564, 2565, 2566, 2567, 2568, 2569, 2570, 2571, 2572, 2573, 2574, 2575, 2576, 2577, 2578, 2579, 2580, 2581, 2582, 2583, 2584, 2585, 2586, 2587, 2588, 2589, 2590, 2591, 2592, 2593, 2594, 2595, 2596, 2597, 2598, 2599, 2600, 2601, 2602, 2603, 2604, 2605, 2606, 2607, 2608, 2609, 2610, 2611, 2612, 2613, 2614, 2615, 2616, 2617, 2618, 2619, 2620, 2621, 2622, 2623, 2624, 2625, 2626, 2627, 2628, 2629, 2630, 2631, 2632, 2633, 2634, 2635, 2636, 2637, 2638, 2639, 2640, 2641, 2642, 2643, 2644, 2645, 2646, 2647, 2648, 2649, 2650, 2651, 2652, 2653, 2654, 2655, 2656, 2657, 2658, 2659, 2660, 2661, 2662, 2663, 2664, 2665, 2666, 2667, 2668, 2669, 2670, 2671, 2672, 2673, 2674, 2675, 2676, 2677, 2678, 26

Tel \_\_\_\_\_ Fax \_\_\_\_\_  
☐ I prefer not to receive promotional mailings from other companies

In what was almost certainly an acknowledgement of the inherent flimsiness of the leadership group chosen to

carry on Mr. Deng's work, much was made in late 1992 and early 1993, of a collective

 **NB POWER**

NO governing board  
uty general manager of  
de France, told the  
fuels and other raw materials  
which the nuclear industry has  
little control.

\_\_\_\_\_





China's standing committee of the Politburo - from left to right: Mr. Jiang Zemin, General Secretary of the Communist Party and President; Mr. Li Peng, the Premier; Mr. Qiao Guohua, Mr. Li Ruihuan, Mr. Zhu Rongji, General Liu Huaqing and Mr. Hu Jintao

Tony Walker looks at the influence of the armed forces

## Long march to modernisation

COLONEL Pan Zhenqiang, director of the Institute for Strategic Studies at the People's Liberation Army's National Defence University, has a vision of China's strategic environment that should hearten its neighbours.

China, he believes, should press hard for multilateral security arrangements like the Conference on Security and Co-operation in Europe (CSCE) that would lessen regional tensions, and overcome mistrust that has bedevilled relationships for generations.

"Our priority is to try to change from confrontation which is a zero-sum game in nature to co-operative relationships," he says. "We do not advocate a transplanting of the CSCE, but we believe such ideas can be adapted to the Asian environment."

These views may be regarded sceptically by Asian nations which have expressed alarm over what they perceive as China's attempts to extend its military reach with purchases of new weapons systems from the arsenals of the former Soviet Union, and other sources such as Israel. But calls by Chinese officials for closer regional security co-operation appear to reflect a genuine interest in finding ways to deal with potential security problems peacefully.

Not least of the factors weighing in China's calculations is the enormous cost of acquiring modern weapons systems that would be required to project its power beyond its own borders. The continuing debate within the military over whether China can afford its

first aircraft carrier is just one example of these financial constraints.

While China increased the allocation to defence by 12.4 per cent to Yn2.5bn (US\$7.4bn) this year, the fourth straight increase in defence expenditure, spending remains low by most standards, even taking account of the fact that the budgeted amount accounts for less than half of the total cost of maintaining the military. Military analysts in Beijing believe that talk of a Chinese regional threat is exaggerated, while they also acknowledge that the sheer weight and size of China's armed forces certainly make them appear threatening in the regional equation - "I don't 'buy' talk of a China threat," says one Western official whose role it is to monitor developments in the military. "Their modernisation programme is simply not enough to make them a regional threat."

Mr Qian Qichen, China's Foreign Minister, seeks fairly regularly to calm regional concerns about his country's military intentions by comparing official expenditures with those of the US and Japan.

"In terms of absolute figures, China's military spending this year will be \$7.4bn, compared with \$274.3bn for the US, \$37.7bn for Japan," he told a press conference earlier this year. His use of the phrase "absolute figures" is somewhat ingenious, however, since, increasingly, China's military has been augmenting its meagre stipend from the state with business activities which have gone far beyond the original intentions of the founders of

the PLA who favoured such worthy money-making pursuits as agriculture and roadbuilding. The military has become ever more deeply engaged in *bingshang*, literally "soldier's business", through affiliated organisations like China North Industries Corporation (Norinco), and China Poly Group Corporation. Both are heavily involved in the arms trade, and increasingly in other commercial pursuits, as well.

A dramatic slump in China's international arms trade from \$4.7bn at the height of the Iran-Iraq war to perhaps as little as \$100m in 1992 is obliging the country's military-industrial complex to seek opportunities away from the arms business.

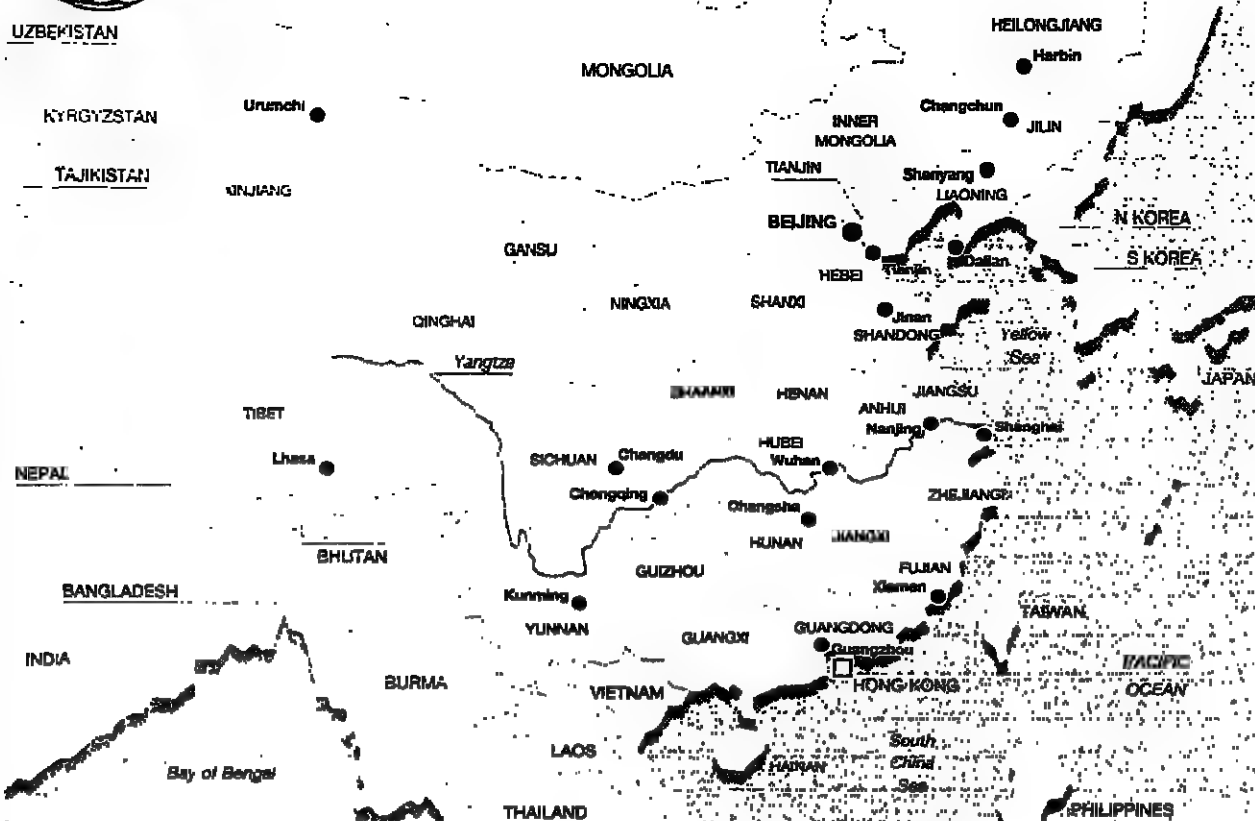
There is scarcely a branch of the Chinese military these days not engaged in some way or other in *bingshang*. "Soldier's business," has come more and more to mean "big

business" for sections of the military whose commercial activities range from real estate speculation to trading in cars and other commodities, and even the management of discotheques and karaoke bars.

Unsurprisingly, the expanding business activities of PLA Inc., as China's 3m strong military is referred to in some quarters, has prompted fierce debate within the defence establishment.

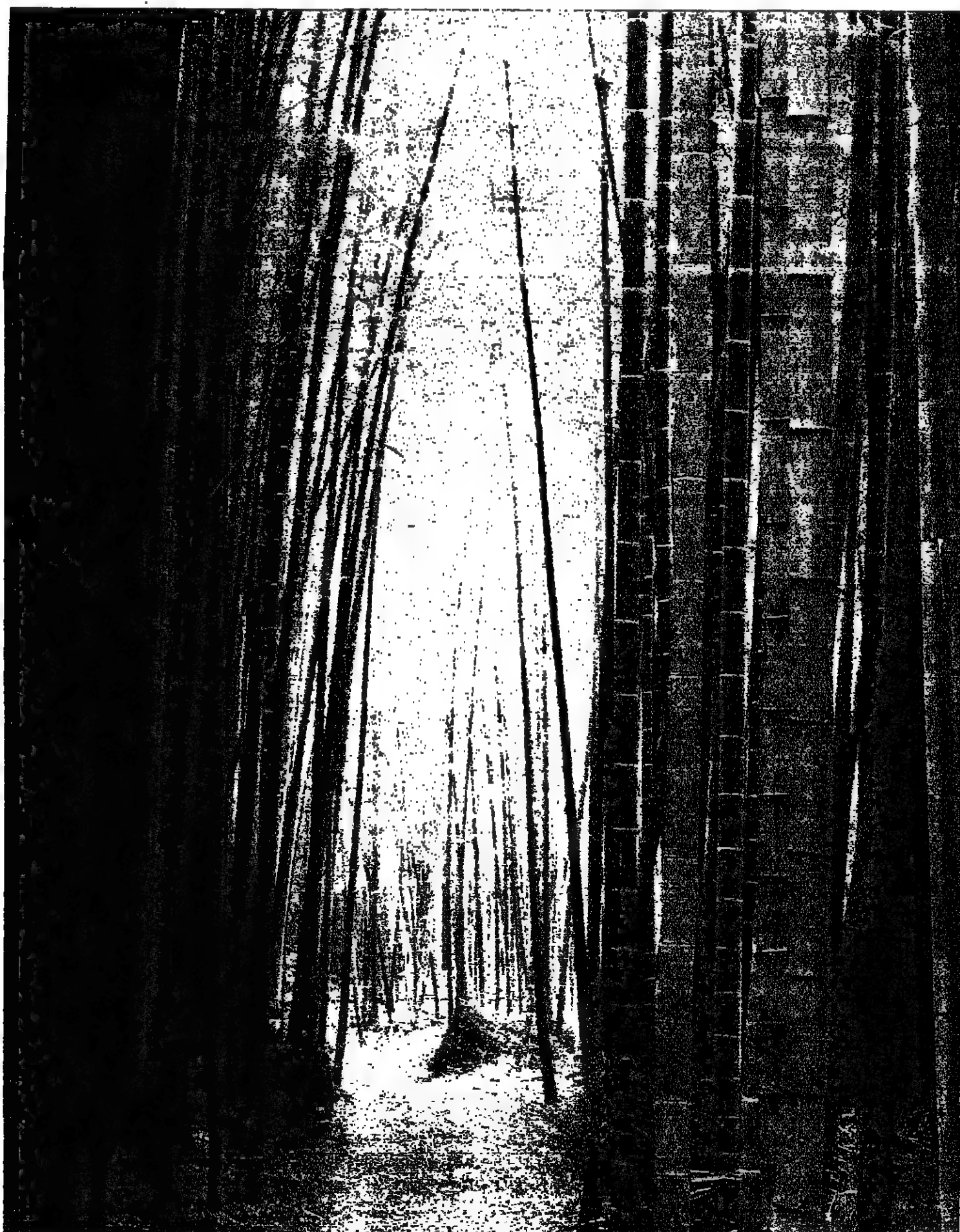
"Our main mission should be the defence of the country," said Colonel Pan from the PLA's National Defence University. "We have to draw a kind of demarcation line... One should not go too far in pursuing business."

Limited financial resources are being devoted to increasing the mobility of the army and building up air defences. The recent purchase of 24 Su27 fighters from Russia is part of the process.



China, with 1.17bn people, has nearly a quarter of the world's population and around seven per cent of the earth's arable land. For two decades, China has tried to limit curb its population growth - the policy is to limit couples to one child, mainly through financial incentives.

WE AREN'T JUST MOVING INTO CHINA,  
WE'RE MOVING INTO THE FUTURE.



Now that Asia-Pacific has clearly established itself as the major economic powerhouse of the future, Wharf has initiated a detailed strategic analysis of commercial opportunities in China. We began by promoting an 'Economic Tripod' between Hong Kong, Wuhan and Shanghai along with a 'Five-Point Strategy' to include Sichuan and Beijing. By responding directly to the Mainland's needs step by careful step, we believe we are uniquely placed to plant the seeds for China's growth well into the next century.

WHARF

Wharf Limited

### SPECIAL ECONOMIC ZONES

## Socialist showcases

CHINA'S long march towards a market economy began in a sleepy border town to the north of Hong Kong called Shenzhen in Guangdong province.

Along with two other towns in Guangdong and one in neighbouring Fujian province, Shenzhen has become the showcase for what China's leaders now call the country's socialist market development.

These "special economic zones" (SEZs) pioneered many of the reforms in company management, decentralised economic decision-making and forms of co-operation with foreign investors that are now commonplace throughout the developing regions of China. In pursuing these policies, the SEZs recorded startling high rates of economic growth.

In 1979, Shenzhen - the biggest and most successful of the SEZs which also include Zhuhai and Shantou in Guangdong, and Xiamen in Fujian - had a population of 320,000 and was one of the poorest localities on the mainland. Today it is the richest area in China with a population of 2.2m. Its per capita income, at more than Yn10,000 (\$1,720), is nearly seven times the national average of Yn1,540.

Shenzhen has grown at breakneck speed. From 1980 until 1992 its gross domestic product rose by an annual rate of 46 per cent a year - making Shenzhen one of the fastest growing micro-economies in the world for which data exist. During the same period, industrial output expanded at an annual rate of 61 per cent, and exports by 63 per cent a year.

Mr Chen Biao, deputy director of Shenzhen's Planning Bureau, says: "We have a planned economy, but we have grown very fast. We call it 'Shenzhen-style speed'. [With output growing] at 40 per cent a year, we are quite happy."

"Our target is to turn Shenzhen into an export-oriented SEZ for advanced industry and services - a socialist Hong Kong with economic prosperity and an adequate legal framework, to borrow the words of Deng Xiaoping."

"Shenzhen-style speed" would not have been possible without the latitude the Chinese central government gave the SEZs to determine their own economic development. Of this, the most important was administrative decentralisation.

Allied to preferential tax and foreign investment policies, decentralisation of decision-making power allowed the

authorities to cut through much red tape. It also gave full play to the "pragmatism" and "flexibility" for which Chinese officialdom has recently become famed.

This was recently underlined when the financing of the Yantian container port - one of China's five strategic deep water ports - on the west coast of Shenzhen, was unveiled. The Yn500m (\$86m) first stage development will be owned and funded 70:30 by Hong Kong investors and a Shenzhen-owned company.

As the SEZs, and Shenzhen in particular, developed they have also benefited from high level political backing from China's military-industrial complex. Shenzhen has become the window on the world for many of China's so-called "third line" industries - the military complexes that were transferred to regions deep in China's hinterland in the 1960s and 1970s to protect them from the then perceived US threat.

Across the Pearl River estuary in Zhuhai, a similar story of rapid economic growth and big plans for future development can be told.

Both localities are feeling the pinch induced by the central government's tightening of monetary policy. Idle, half-developed, building sites are, however, a more common sight in Zhuhai than in Shenzhen.

Of larger significance to the two SEZs - in particular Shenzhen - is that costs of land and labour have risen in line with the growth in their respective economies. Both run the risk of pricing themselves out of the market.

Officials on both sides of the Pearl River are aware of the danger. They are now talking about the next stage of development, which envisages a growth in services such as banking and finance, and a growth in high-technology and less labour-intensive industry.

Shenzhen has an ambitious plan to re-orient its economy. The city's planners want to turn Shenzhen into China's main export and foreign exchange earnings centre and a base for advanced technology, banking and finance. To date, however, there is little sign that foreign investors view either Shenzhen or Zhuhai as places to locate high-tech industries - most foreign investment is directed at infrastructure projects, and assembly rather than original manufacturing or research and development.

Simon Holberton



## CHINA 6

## DEVELOPMENT ZONES

## Ambitious targets

THE AMBITIONS of Chinese provincial governments are on display in their development zones. In Yantai, on the Shandong coast, a gaudy banner proclaims that the "investor is god," and in Dalian, in the north, a billboard sets the goal of "building a world class yacht club."

Development zones are the greenfield sites in which local officials have let their imaginations flourish. State-run banks have built lavish buildings, developers want a "millionaire's row" of luxury villas, and vacant stretches of land are enthusiastically described as a Chinese silicon valley.

Beijing disapproves of the provincial passion for development zones, and closed 1,000 of 1,200 opened in eastern China. Village administrations had followed the trend started in 1984 by clearing farmland for their own zone, which stirred old fears about wasting scarce financial resources and the disappearance of agricultural land.

Mr Gu Hong, deputy director of the Suzhou National New and High-Tech Industrial Zone, emphasised that his zone is "approved by the State Council" the Chinese government. On the morning of the Financial Times tour, the toilets at the zone's offices were perfumed and a meeting room prepared for a visit by Mr Wang Bingqian, the former finance minister and state councillor.

There are 52 development zones approved by the State Council, and that

means that the government thinks these areas have conditions suitable for a zone," says Mr Gu. "The benefit of approval is that the state will provide funds for investment and encourage large enterprises to come here. It also means that we have a preferential tax policy."

The government of Suzhou, traditionally



Tuning up for business: planes being tested at the Yantai Development Zone

known for its silk, ornate gardens and canals, describes the zone, approved last year, as the third stage of the city's development, and has built an elaborate model capturing the vision of universities alongside high-tech factories in tree-lined streets. Mr Gu says that the 16sq km of the zone has agreements for 130 ventures involving \$1.3bn in investment, 68 per cent of which is foreign. The zones has

attracted Philips, which has a television project, Unjohn, the US pharmaceutical company, and Acer, the Taiwanese electronics company.

At the Yantai Economic and Technical Development Zone, the boast is that the local bureaucracy will process a joint venture application within an hour, "even if the forms are incomplete." Given Chinese officials' love of finding fault with documents, the boast is even more remarkable than the zone's new karaoke bar, opened in an old Air China jet parked beside the beach.

Mr Tian Pengcheng, vice director of the Yantai zone, said contracted investment in the zone has risen from \$360m in 1991, when much of the infrastructure was in place, to \$700m last year and another \$700m in the first nine months of this year. Around 35 per cent of the money is from non-Chinese companies, but the zone is falling behind the Dalian zone, to the north, which has been particularly successful in luring Japanese investment.

"We find it easier to deal with US and European companies than Japanese companies," says Mr Tian. "Our Japanese friends are becoming more interested in Yantai, but they want very big profits and they pay a lot more attention to details."

In Dalian, 20 Japanese companies, with the assistance of the Ministry of International Trade and Industry (MITI), have set up their own development area.

Robert Thomson

## PROVINCIAL FOCUS: SICHUAN PROVINCE

## Full speed ahead

SICHUAN'S provincial government is keenly aware of the massive influx of foreign money which has fuelled industrial growth in China's southern coastal regions. The governor, Mr Xiao Yang, is determined to catch up.

The province has one-tenth of China's 1.2bn population but only 6.5 per cent of gross national product and 6 per cent of the country's farmland. Development of an already substantial industrial base is essential both to soak up surplus farm labour and to boost living standards. Mr Xiao's aim is to double the province's per capita income from the current \$50 yuan by the year 2000.

Sichuan, birthplace of Deng Xiaoping, was a testing ground for reform in the late 1970s when Mr Zhao Ziyang, the former premier, was the province's party secretary. Its 80m peasants were early beneficiaries of agricultural reform and of township and village enterprises, the low technology industrial ventures introduced to absorb farm labour. "Now the peasants can get food and clothes but the situation is still not so satisfactory," the governor says.

Township and village enterprises employ 30m people, a quarter of the province's population, but Mr Xiao's aim is to double the figure. "To fulfil this target, we need a huge investment," he says. Sichuan, like other provinces, needs huge improvements in infrastructure and is weighed down by the behemoths of central planning: grossly inefficient state-owned enterprises which need reform and investment in new technology.

Mr Xiao estimates that to meet his development targets, \$500bn of investment is needed each year and would generate 10 per cent annual economic growth. The provincial government itself can find Yn24-26bn, he says, enough to

generate growth of 7 to 8 per cent per year - modest by current Chinese standards. The rest must be sought by raising additional financing from its own citizens, foreign investors or elsewhere.

Over-enthusiastic attempts by local officials to raise money led to a crisis in the spring. Farmers became upset on two counts: local governments imposed a series of taxes and charges to fund projects such as new roads; and money provided by the central government to pay farmers for their produce was diverted into real estate speculation by officials who issued IOUs to the farmers instead of cash. Farmers were unimpressed by protestations that the real estate would produce a substantial return for their communities.

THOUGH the practices were not unique to Sichuan, the province suffered the most severe consequences with riots and violent clashes which resulted in the dispatch of armed police as well as teams of officials to crack down on corruption. Mr Xiao says the tensions have now been resolved.

Though there may still be poverty and unhappiness deep in the countryside, there is every sign of rampant growth in and around Sichuan's two key cities of Chengdu, an industrial port located at the meeting of the Yangtze and Jialing rivers, and Chengdu, the capital. Crane-filled skylines and busy shops and restaurants underline the flowering of commercial activity.

Chengdu boasts its first underground shopping centre. A subway is planned under its boulevards. Though a large statue of Mao Zedong wares a regal hand over the main square, he would be appalled at the vibrant commercial activity he now surveys.

## CENTRE/PROVINCIAL RELATIONS

## Looser controls from Beijing

MR LIU ZHONGLI, China's finance minister, found himself this summer in Zhejiang and Fujian provinces on the south-eastern coast. Sent by vice-premier Zhu Rongji to help in enacting measures to slow down rampant economic growth, he was shocked at what he saw.

"In one place the government was planning to establish ten golf courses," he said in an interview with the Financial Times. In another, the local government had unilaterally lowered the tax on enterprises, which had in turn reduced the revenue coming to his ministry.

Mr Liu and other top officials dispatched by Mr Zhu found that many local governments had used money advanced by Beijing to pay farmers for their produce had been diverted into real estate speculation. The central government was forced to advance Ynbn to help pay off IOUs given to farmers, which had caused widespread unrest including riots in Sichuan province.

The economic boom's wilder excesses, which Mr Zhu has been seeking to curb, are a result of increasingly decentralised management of the economy.

Looser controls from Beijing have allowed provinces to develop rapidly and provide powerful engines for growth. Coastal provinces such as Guangdong, Fujian and Zhejiang have benefited enormously from massive inflows of investment since their economies were liberalised and opened up during the 1980s.

However, privileges granted to the coastal regions have prompted other provinces to compete, particularly after Mr Deng Xiaoping, China's leader, endorsed rapid growth early last year. They have sought to boost local economic growth and tax revenues so that they could, for example, finance much-needed improvements in infrastructure.

Local authorities which have offered incentives and finance indiscriminately, particularly for real estate development, are a key target of Mr Zhu's measures.

This confrontation is likely to heighten tensions which have already arisen because of the widening gaps in living standards between different regions. Money pouring into the booming south for

real estate or other investment has actually contributed to a transfer of resources from poor to rich provinces.

Statistics show that the provinces which have improved living standards most are those which have managed to:

- Lower the proportion of state ownership by boosting non-state industries.
- Intervened the least in micro-management of the economy.
- Hung on to the most tax revenue.
- Attracted the most foreign investment.

THE BIGGEST source of tension between Beijing and provincial capitals is the breakdown in orderly fiscal relations. Until 1980, all revenues were remitted to Beijing and then distributed back to the provinces according to the spending requirements set under central planning. The various arrangements which replaced that system have degenerated into *ad hoc* annual contract negotiations with each province, to Beijing's increasing disadvantage. The government is sensitive to these problems and is taking a number of steps to counter it:

- Inland provinces have been opened up so that they can offer investors the same privileges as those on the coast.
- Mr Zhu's 16-point programme to rein in economic growth, announced in July, seeks to re-establish macro-economic and monetary control particularly by curbing excessive lending activities of provincial branches of banks including the People's Bank, which is to become a full-fledged central bank.
- A new tax-sharing system between the centre and the provinces is intended to come into effect next year.

Mr Xiao Yang, governor of Sichuan, the most populous province with 150m people including 90m peasants, said in an interview that the Zhu programme will "be good for the development of economic life because it will balance investment between the provinces."

Asked about political tensions arising out of widening income gaps, Mr Xiao - who is a firm adherent of faster economic reform - says: "I think this is a very big problem. The difference between coastal and inland provinces should be narrowed."

If the country wants to maintain high-speed development within a reasonable structure, we should find measures to deal with the problem."

Most provincial officials agree that Mr Zhu's measures to deal with overheating are good, but deny that excessive speculation is a problem in their particular area. Mr Lin Dezi, vice-director of the Yantai economic commission, says: "The influence of the macro-economic controls has not been very great in Yantai. There were a few signs of overheating, but we maintain strict control ourselves on development, so there is no obvious adverse impact."

Mr Chen Zhengqiao, vice mayor of Dalian, says "this is not an austerity programme - this is an attempt to exercise control over finance and things like illegal investments, which would be forbidden even in foreign countries."

However, there are indications that the Zhu programme has aroused opposition in the provinces which have faced its austerity to be toned down. Mr Wei Liqun, secretary general of the State Planning Commission, said Mr Jiang Zemin, China's president and communist party general secretary, and other leaders have been touring provinces since late September to reassure local leaders that controls on the economy will not be too tight.

"Our leaders wanted to see the effects of the macro-economic controls and to reassure provincial leaders. The local leaders didn't criticise the central policies, but they made some suggestions," says Mr Wei. Economists at the International Monetary Fund, in a recent paper entitled *China at the Threshold of a Market Economy*, point out that it may be difficult for other provinces to replicate the extraordinary growth of Guangdong province. They note that exports have contributed a large part of its growth, that proximity to Hong Kong and Macao has boosted foreign investment, and that its role as a laboratory for reform has allowed it to be more aggressive in reforming the economy than other provinces.

Alexander Nicoll and Robert Thomson

## Opening to the outside world

Below, and on the following two pages, FT correspondents look at China's growing links with the international business community, plus the increase of foreign investment in to China



## FOREIGN INVESTMENT IN CHINA

## Big surge of interest

THE gold rush of foreign investors into China has taken on enormous proportions this year. According to official figures, actual investment in foreign-funded projects during the first nine months of the year exceeded \$15bn.

In the same period, the Beijing government approved 62,788 projects involving foreign participation, with a contracted value of more than \$83bn, a 171 per cent increase on the first nine months of last year.

The figures so far this year compared with agreements signed in 1992 worth a total of \$65.5bn, and actual foreign funds flowing into the country of \$11bn, more than double the totals for 1991.

Such statistics have to be treated with caution. Equity from the Chinese side is often included in the value of projects, exaggerating the size of the apparent inflow. Some investment comes from inside China but is directed through offshore companies to win tax advantages. Many agreements will not be put into effect.

Nevertheless, interest from abroad is easily visible to anyone visiting China's leading cities. One western diplomat says: "We get hundreds of faxes from companies saying 'we're sending our top corporate team'."

The ventures which the latest visitors will eventually negotiate will spread investment well beyond the dynamic, but increasingly clogged and expensive, coastal regions.

Ethnic Chinese business

from outside China - from Hong Kong, Taiwan, south-east Asia and the US - dominates the flow of foreign capital into China. Though most ventures have been in light industry and concentrated in the south - representing a shift in the manufacturing workforce from other Asian countries into China to take advantage of cheaper labour - Asian-funded projects are growing in scale.

Most of the region's ethnic Chinese captains of industry, such as Hong Kong's Mr Li Ka Shing, Indonesia's Mr Liem Sioe Liong, and Malaysia's Mr

investment in industrial parks where special efforts are made to improve infrastructure.

Meanwhile, indirect investment is growing through listings of Chinese companies on the Shanghai and Shenzhen stock exchanges as well as in Hong Kong, New York and most recently Sydney. A plethora of "China funds" - mostly investing a small proportion of their money in China itself - have sprung up to cash in on feverish investor interest.

However, because of the nascent state of Chinese stock markets and of the country's

form of technology transfer which means that the foreign investor is taking a risk in a country where there are worries about intellectual property rights.

However, the government has taken steps to protect copyright as well as to give fairer treatment to foreign-funded enterprises.

Mr Miao Fuchun, spokesman of the Ministry of Foreign Trade and Economic Co-operation, says: "Our general objective is to create a fair competitive environment according to the principle of the market economy."

To ensure this, we must give equal treatment in such areas as taxation, tax rates, exchange rates, transport, communications and work procedures."

Improvement of the legal framework and greater transparency of regulations are important in bringing Chinese practices closer to international standards, Mr Miao says.

Nevertheless, China remains a very difficult environment in which to operate. Companies feel they must be involved in China's boom, but find that ventures take years of frustrating negotiations absorbing a great deal of management time, and that problems often arise once ventures have started up.

A commercial attaché at one western embassy says his message to arriving businessmen is: "For goodness sake be careful, and why weren't you here yesterday?"

Alexander Nicoll

## China's priorities for new investment focus increasingly on improving infrastructure

Robert Kuok Hock Nien, are pouring money into huge projects. Singapore is planning to build whole cities in China.

However, most significant western and Japanese companies also recognised long ago the potential offered by China's reforms and growth, and have set about establishing ventures.

Those that were there first are finding that they have a growing number of different operations in China and are seeking better ways to co-ordinate them.

Shanghai, where foreign investment has lagged and infrastructure is poor, is likely to benefit as the ambitious Pudong development area takes shape.

The overall tendency is likely to be towards bigger projects and concentration of

company law and accounting methods, direct participation in Chinese business will remain dominant form of foreign investment for years to come.

China's priorities for new investment focus increasingly on improving infrastructure, particularly power and transport.

The government has seized upon the build-operate-transfer formula, which has been used to a limited extent in the south, as an attractive means of bringing in foreign capital to big projects.

However, western companies are cautious since the BOT formula means having assurances about revenue streams in areas where price controls still exist.

The pressing need for China's industry is technology. Most joint ventures involve a

## Alexander Nicoll on practical issues for investors

## The wise go well prepared

CHINA can be a daunting place for people who know little about the country but feel that they must not miss out on the business phenomenon of the 1990s.

Businessmen and consultants familiar with the country say that it is essential to take a long-term strategic view when establishing a presence in China. Success requires patience, perseverance and flexibility. Here we provide some advice on how to set about it.

## Preparation

Define your company's goals. A vague idea that China is a big market in which you should be present is far from enough.

Objectives need to be established at the highest level and pursued with commitment - this is how Chinese enterprises work and your negotiators will not be on firm ground unless you do the same. This means defining the desired product of a venture, the targeted market, setting management responsibility at a high level and establishing where the project fits in to your corporate strategy. This will help to determine what structure would be the most desirable: a wholly-owned Chinese enterprise, an equity joint venture, a co-operative agreement or assembly contract.

Research should be done on government policies in your areas of business, since a venture will have a far greater chance of receiving strong backing if it is in line with official priorities.

Approaching the Chinese

Expect years to pass between your first contacts and the eventual start of operations. Chinese business and government work on an informal system of personal relationships, called *guanxi*.

This does not imply corruption - it is simply the way that things get done. Relationships need to be built over time, through repeated visits and often by arranging visits for Chinese officials and executives to your headquarters.

Do not reveal your full aims, ideas or requests for specific information until you have established these links. Remember that the people you meet are themselves constantly seeking to build *guanxi*. Over time you want yours to be as good as theirs, and this will help your negotiating position.

China's reform and expansion does not mean that there has been a radical change in practice within the bureaucracy with which you have to deal. Nothing can be taken for granted. At the same time, companies should be wary of wide public mood swings about China and keep their focus on conditions in their areas of business.

Choice of partner and negotiation

Choosing your partner is the most important decision. If your first contact is with a ministry, do not be too easily directed towards the first potential partner suggested. Work out who has relationships of patronage with whom.

Western companies are likely to choose state-owned enterprises as their partners because they have strong links with supervisory bodies, need injections of capital and technology, and are likely to be permanent fixtures.

Beware of a state-owned enterprise which is seeking to diversify out of out-dated products into areas it knows little about. However, you may judge an apparently unlikely partner to be the right one: for example, Baskin-Robbins of the UK Allied-Lyons group is opening ice cream stores in partnership with the China Satellite Launch and Tracking Control agency.

The most important criterion in choosing a partner is establishment of a correspondence of respective goals. The goals of each partner do not have to be the same, but they must not conflict and they must require mutual co-operation. This cannot be discussed too much.

You need to be satisfied that success of the venture is as important to your partner as it is to you and that you agree on the means to achieve it.

Part of the consideration of the right partner will be its location: infrastructure and costs must be assessed. Tax and other incentives offered to foreign investors are far more uniform across China than previously.

Understand on which documents the Chinese side places weight. A joint feasibility study conducted with official

participation is more important than the earlier letter of intent. It is vital to ascertain who has the final say.

Contractual and legal issues

Views differ on the need for detail in a contract. Negotiations are the vehicle for nailing down detailed agreements on all aspects of a venture's business - such as shareholding structure, product, technology transfer, local content, whether products are to be exported, marketing, finance, tax, access to foreign currency, management, recruitment, training.

However, the resulting contract does not have the weight that it would have in the west because China lacks the necessary body of law as well as an adequate judicial system. Virtually anything is negotiable. Topics which had been closed can be re-opened. There would however be seeking of redress for breaches of contract through the courts. It is likely that the use of arbitrators will grow.

Management

Many foreign companies will insist that they appoint the general manager of a joint venture. Even if they do, it is important to keep cementing the friendship with the Chinese partner so that problems can be dealt with in a co-operative fashion as they inevitably arise.

After start-up, management is the key issue. Foreign companies will generally place an expatriate manager on site whose principal role will be helping to improve management practices. Chinese staff may have a high level of technical expertise but are unfamiliar with the concept of management responsibility and often view it as being risky to take the initiative and cut across bureaucratic practices.

This does not mean that foreign managers must simply attempt to impose western practices. They have to be patient and adaptable in attempting to deal with Chinese problems in a Chinese way, while increasing levels of efficiency and responsibility.

Useful reading

For serious economic information, the World Bank has a number of important publications and the IMF recently published Occasional Paper No 107, *China at the Threshold of a Market Economy*.

Powerful, readable books include Jung Chang's *Wild Swans*, Nien Cheng's *Life and Death in Shanghai* and Amy Tan's *The Kitchen God's Wife*. Also interesting is Colin Thubron's *Behind the Wall*.

Historical overview is provided by Jonathan Spence, *The Search for Modern China*, and John King Fairbank, *The Great Chinese Revolution 1890-1980*.

A useful tale for investors is Jim Munn's *Beijing Jeep*. Chinese Profiles by Zhang Xinxin and Sang Ye is oral history. Geremie Barme and Linda Jaivin's *New Ghosts, Old Dreams* is a collection of modern writings. Fang Lihui's *Bringing Down the Great Wall: Writings on Science, Culture and Democracy in China* gives a sense of the Chinese mind.

Or more likely Russia is likely to need World Bank help if it is to proceed. In the Ukraine, unable and

Mr Henry Kissinger, chairman of the WANO governing board and deputy general manager of Electricite de France, told the

fuels and other factors which the nuclear industry has little control.



**W**HEN US President Bill Clinton and Chinese premier Jiang Zemin sit down together at this week's Apec summit, trade relations will be among the key items on their agenda.

In March, on a visit to Beijing, Mr Douglas Newkirk, the assistant US trade representative, spelled out the trade liberalisation measures which the US said were minimum condition for China to enter the Gatt.

These included a single national tariff policy, full transparency of trade regulations, the gradual removal of non-tariff barriers and a commitment to move to a full market economy.

But the following month, President Clinton added to these list a string of political conditions upon which China must make "significant progress" before its Most Favored Nation trading status could be extended, and thus, implicitly, before China could join the Gatt.

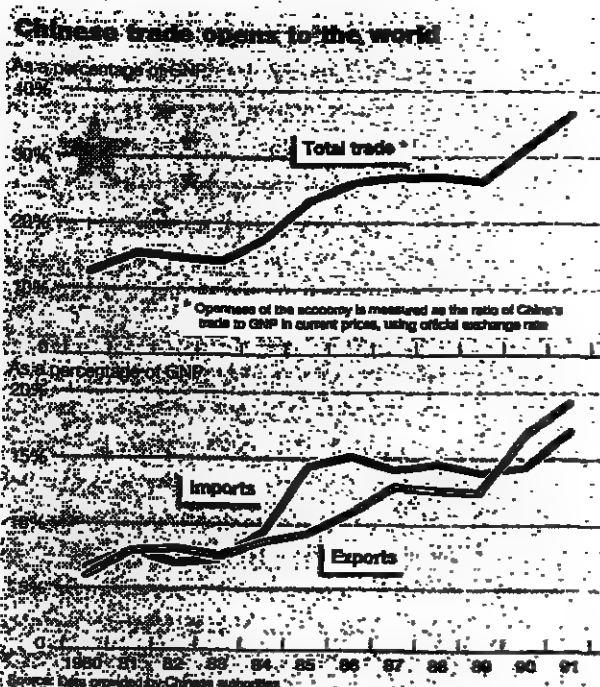
The conditions include the end of exports to the US of products made using prison labour, the release of political prisoners and adherence to the Universal Declaration on human rights. The World Bank estimate that failure to renew MFN status could cut Chinese exports to the US by between \$7bn and \$15bn.

Chinese government officials can barely conceal their outrage - "it is already eight years since China applied for resumption of our contracting party status in Gatt and we have made great efforts to bring our trading system in line with others," says Mr Li Langqing, vice-premier.

"The major obstacle is now the US. We are against linking political issues such as human rights with trade - these should be settled by political negotiations."

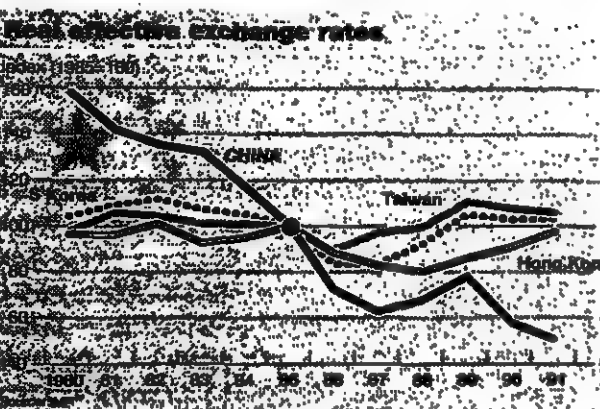
It is easy to see why the Chinese government in Beijing balks at this explicit linking of trade concessions to political issues, such as human rights. While limited progress has been made on the latter since reforms began in 1978, open trade and export-led growth have been at the heart of its post-Maoist economic reforms.

Up to now, China's trade record has been astonishing. Exports volumes grew at an average rate of 12 per cent a year between 1980 and 1991, making China the world's third



China's share of world trade has doubled in a decade

## Astonishing record



largest exporter in 1991, up from 26th place in 1980. China's share of world trade has doubled in a decade. Merchandise trade as a ratio of gross national product (GNP), measured using the official exchange rate, has increased from 12.9 per cent in 1980 to 38 per cent in 1991.

China has gradually dismantled its restrictive trade regulations, allowed a substantial depreciation of the exchange

rate and encouraged foreign investors and the growth of the non-state sector to take advantage of cheap Chinese labour. The result are reflected in the changing pattern of exports.

The share of labour-intensive manufactures in total exports has risen from 38 per cent in 1975 to 74 per cent in 1990, while the share of capital-intensive manufactures has fallen from 50 per cent to 19 per cent over the same period.

By 1990, 20 per cent of exports now come from foreign funded enterprises, while the share of township and village enterprises had risen from less than 5 per cent in 1985 to over 20 per cent. China still has a long way to go in replacing direct administrative intervention with indirect price measures and removing opaque regulations before it will have a liberal trade regime.

But the result of decentralised decision-making has been, according to the World Bank, to make China's trade system *de facto* more open than its 22 per cent average nominal tariff rate and the plethora of import controls, licenses and non-tariff barriers would suggest.

Western diplomats in Beijing, while complaining that China is not dismantling its quota system fast enough, say there are encouraging signs. In the area of intellectual property, while enforcement has lagged substantially behind new copyright legislation and abuse is widespread, the government recently raided an illegal CD manufacturer in Shanghai.

Similarly, while China's trade regime is far from transparent, the trade ministry last month started to publish a periodic journal of regulations relating to foreign trade and stated that any state council directives which are not made public are henceforth invalid.

One sensitive trade issue in Sino-US relations, with textile quotas up for re-negotiation at the end of this year, is the illegal trans-shipments of textiles through Taiwan, Hong Kong and the Dominican Republic in order to evade China's trade quotas.

Officially, Hong Kong alone receives 54 per cent of China's total exports. But, according to the World Bank, adjusting for re-exports raises the US share of Chinese exports from 8.7 per cent to 25.6 per cent and the EC share from 9.2 per cent to 19.2 per cent, while the Hong Kong share slips back to a mere 6.2 per cent.

Yet, regardless of progress on the trade front, the operative condition for MFN renewal is "significant progress on human rights." Mr Warren Christopher, US secretary of state, said last month that China still has a long way to go before significant progress has been made, a sentiment that Mr Clinton is likely to echo this week in Seattle.

Edward Balls

Accountancy and legal services are growing fast, reports Lynne Curry

## Foreign firms move in

**A**FTER years of being rigidly controlled by the state and treated as irrelevant, accounting joint ventures and foreign and domestic law firms are experiencing an explosive growth in China.

The changes have been profound. In the face of a serious shortage of Chinese financial experts with a real understanding of the workings of a market economy, international accounting firms, in joint ventures with domestically-trained accountants, have moved to fill the vacuum.

"The idea has begun to be accepted that accounting is for business and not for the government, and that international accounting standards should be practiced in China," said Charles Feng, deputy manager of Arthur Andersen Hua Qiang, the accounting firm's joint venture here.

With the rise of accounting firms, the economy has also seen the emergence of a small group of well-connected domestic lawyers that work in independent co-operatives, with at least five attorneys, in what are better known in the west as partnerships - "these co-operative firms are good and became good quickly," says a western lawyer. "They are a bigger competitive threat than foreign law firms realise."

Within the last year, about 100-150 co-operative firms have been established nationwide with at least twenty based in Beijing, six in Shanghai, and two in Guangzhou.

Nearly all deal with commercial issues. Almost none handle criminal or civil cases. Their areas of expertise include financing commercial transactions, securities and listing advice, foreign investment and trade, real estate, commercial disputes, and intellectual property rights.

Co-operatives are dramatically different from China's more conventional state-owned law firms. Attorneys operate along western lines, working longer, more western hours, making far larger salaries, and assuming more individual responsibility.

For China, these "partnerships" are the wave of the future. State firms are losing

many of their best attorneys to these new co-operatives with the result that state-owned law offices may gradually fade away or be forced to change.

With the emergence of independent domestic law firms, the role of foreign lawyers has slowly begun to shift. Although foreign law firms continue to offer legal, financial, and investment advice to both Chinese and foreign companies, some foreign lawyers are beginning to specialise more in legal consultations involving large business deals for Chinese companies overseas and for those Chinese enterprises seeking listings on the New York and Hong Kong stock exchanges.

But fundamental differences between

Overhauling China's accounting practices proves to be a boon to foreign accounting firms

Chinese co-operatives and foreign law firms remain. Foreign lawyers are not allowed to argue a case in court for their clients, nor are they permitted to give advice or legal opinions on Chinese law.

Despite the restrictions, foreign law firms are eager to cash in on China's increasing economic openness. Since the government has given official approval to foreign firms to operate here, there are now over 40 foreign law firms with offices in China, among them, such prominent companies as Paul, Weiss, Rifkind, Wharton, & Garrison, Denton Hall, Graham & James, and Coudert Brothers.

While foreign law firms compete with the newly established domestic co-operatives, they also frequently work closely with them on matters requiring vital personal Chinese connections and Chinese assistance in litigation and in arbitration.

Still, foreign law firms bring a certain analytical edge that the fledgling law co-operatives lack, according to western attorneys. "Chinese firms are not yet

strong enough on analysis: it's an approach they haven't yet developed," a western lawyer observes. While lawyers are rapidly moving to become the economy's legal foundation, accountants have become the country's economic linchpin. The government says Chinese state-run enterprises seeking foreign investment must adopt international accounting standards to make corporate bookkeeping understandable to foreign investors, and in the future, this will be broadened to include all Chinese enterprises.

Chinese accounting practices have followed the former Soviet model, where ownership and profitability were irrelevant in a centrally planned economy.

"In government-owned enterprises, you couldn't find the real owners," says Li Bichang, vice-president of KPMG Peat Marwick Huazhen. "The government is trying to use corporatisation to clarify ownership. It is a difficult job."

The monumental task of overhauling China's accounting practices to bring them into line with a market economy has proven to be a boon to foreign accounting firms. All of the large multinationals are here and have ambitious expansion plans.

Under the new regulations, they have formed joint ventures with accounting firms that are linked either directly or indirectly with the Ministry of Finance. Previously, they were permitted to do consulting and auditing only for foreign joint ventures. Now, they are able to offer the same services to any Chinese enterprise. Their focus will remain, however, on serving foreign joint ventures and on those Chinese enterprises that are planning to be listed on Chinese, Hong Kong, or New York stock exchanges.

While accounting and law are forging ahead, insurance remains largely closed to foreigners. The multinational AIG is the only foreign company that has been given a license to operate in China. It can sell life insurance to Shanghai residents and write policies primarily for foreign investment enterprises.

Sino-US relations: report by Alexander Nicoll

## Clinton seeks a new start

**T**HE MEETING due to be held in Seattle tomorrow between President Clinton and Mr Jiang Zemin, China's president and communist party general secretary, could signal a new phase in the complex relationship between Washington and Beijing.

Though officials of both sides have been cautious about the meeting's likely outcome, China has called it a "Sino-US sum-

mit". Mr Li Peng, the premier, said earlier this month: "It conforms with the common interests of the two countries and is conducive to safeguarding peace and stability in the Asia-Pacific region for China and the United States to maintain a stable and constructive relationship."

Mr Clinton has set the tone for deeper links by embarking on a new multi-faceted approach to China in recent months.

On the one hand, he has set new conditions for next year's renewal of China's most-favoured nation (MFN) trading status - thereby creating new strains in the relationship and posing a severe threat not only to Chinese economic progress but also to US exports and imports. US officials insist that MFN status will be

Continued on next page

## CHINA & EASTERN INVESTMENT COMPANY LIMITED

Extract from the preliminary announcement of final results for the year ended 31st July, 1993.

	1993	1992
	US\$	US\$
Net assets	53,817,874	49,569,350
Revenue	2,166,789	1,858,654
Administrative expenses	814,214	1,395,050
Profit before taxation	1,352,575	463,604
Taxation	39	770
Profit for the year	1,352,536	462,834
Special interim dividend - paid	-	204,000
Final dividend - proposed	1,224,000	204,000
Profit for the year - retained	128,536	54,834
Earnings per share	US\$0.066	US\$0.023
Final dividend per share	US\$0.06	US\$0.01
Net asset value per share	US\$2.64	US\$2.43
Other transfers to reserves		
Net profit on disposal of investments	US\$2,518,671	US\$406,164
Increase in valuation of investments	US\$1,601,317	US\$13,804,961

"... The strong growth in China & Eastern's earnings has continued with the profit attributable to shareholders increasing by 192% ... the Board looks to the future with confidence and believes that there will continue to be excellent investment opportunities for the Company through which the shareholders of China & Eastern can enjoy long term capital appreciation."

The Rt. Hon. The Lord Marsh of Manningtree KT

At 29th October, 1993 China & Eastern's unaudited net asset value per share was US\$3.47, an increase of 31% since 31st July, 1993.

There are now 32 companies listed on the two Chinese 'B' share markets with a combined capitalisation in excess of US\$1.5 billion. The 5 'H' shares had a capitalisation of some US\$1.5 billion at 3rd November 1993. The availability of investment opportunities continues to expand beyond the confines of the Shenzhen, Shanghai and Hong Kong Stock exchanges. Chinese companies now have listings in the US, UK, Hong Kong and Australia. This process is expected to continue as China's capital requirements continue to grow. As China & Eastern's investment advisors we are following these developments with great interest and have been active in the 'B' and 'H' share markets on their behalf, as well as making investments outside of the Hong Kong and Chinese stock markets.

Copies of the annual report and accounts are available from its registered office: 8th Floor, Princes Building, Hong Kong.

Baring International Asset Administration Limited  
acts as advisor and fund manager to  
China & Eastern Investment Company Limited.

BARINGS

Like the horse poised on the sparrow, companies venturing into China must show deliberation as well as dispatch.

At HongkongBank we know that there is much more to efficiency than speed alone.

Our goal, therefore, is not only to respond swiftly to your needs, but to complement that service with tried and tested business advice.

When it comes to trade finance, for example, with our advanced telecommunications network, we can ensure that your business transactions are processed without delay.

But more importantly, our experience of China trade dates back well over a hundred years to the day we opened our Shanghai branch in 1865. An expertise that currently spans nine offices strategically located in major business cities throughout China.

So before you sprint out of the starting gates into the China market, you'd be well advised to pace the course with a seasoned runner.

After all, we know that the only way we'll succeed is by helping you to do the same.

SUCCESS IN CHINA REQUIRES A DELICATE BALANCE BETWEEN MOMENTUM AND CONTROL

HongkongBank  
The Hongkong and Shanghai Banking Corporation Limited  
Your Future Is Our Future



## CHINA 8

## Industrial growth

Reform has come gradually to China's industry. Here, and on the following four pages, Robert Thomson, Tony Walker, Bronwen Maddox and Edward Balls chart the progress of key sectors

## INDUSTRIAL REFORMS

## Central controls are eased

Balancing rapid development and popular opinion appears to be the guiding principle of the government, reports ROBERT THOMSON

In the early years of China's economic reform, factory managers and Communist party secretaries did their job satisfactorily if they expressed support for change and spiced their sentences with the language of newspaper editorials and internal party documents.

Reform has come gradually, sometimes erratically, but the accumulated change has altered the character of Chinese industry. Factory managers, whose tasks were neatly described in a state plan, are now aiming at the moving target of a market, and the government wants to realign the welfare functions of the work unit, leaving a corporate core.

The nature of opposition to industrial reform has also changed. In the past, Communist party leaders fought over points of ideology on issues such as bankruptcy, but the reluctance of local governments to use the tool of bankruptcy now has more to do

with angering workers and disrupting "social stability".

Ideological arguments have been settled by the success of reform, but the government is yet to solve some of the more difficult questions confronting industrial China. Many large state-owned companies are still soaking up subsidies to cover losses, and the "debt chains", the networks of unpaid debts in the state sector, appear to be lengthening again.

Smaller, collectively-run and private companies are diversifying into new areas with a passion, pushing up the national rate of industrial output, which rose 53.4 per cent in August, against a year earlier.

But some of these new ventures are flooding the market with poor quality products that were a good idea last year but have already lost their niche. Change is begetting change. Factories, such as the Shenyang Cable Works, now responsible for their own profitability, are experimenting with foreign exchange hedging for the first time. As Mr Wang Fuyao, vice president of Shenyang Cable, explained: "We import raw materials and we have been hurt by exchange rate fluctuations, so we set up a team to research the market and will begin operations next year."

For the first year in its post-revolution history, Shenyang Cable says that products are

not sold at a discount for special state projects, and the company has decided that it must trim 1,000 from its 12,600 workforce. But the factory's suggested solution to that awkward problem is typical of the central government's response to reform's unresolved contradictions.

"We, in the management, are not going to decide who should be among the 1,000. We will let the workers decide among

Poor quality goods that were a good idea last year flood the market

themselves. For example, if 600 people are in a certain workshop, we will say that there should be only 550 and let the workers select who the 50 will be. Then we will approve their decision," says Mr Wang.

Similar difficult decisions are being faced and avoided in factories throughout the country. The "responsibility system," introduced after early successes in reforming agriculture, has taken hold, but factory managers and the Communist party leadership are still ready to pass the parcel of responsibility, which hinders the identification of worrying trends in industry.

Debt chains were hurting industry many years before Mr Zhu Rongji, the vice-premier,

was called in to clean up the mess. And, for example, the New Asia General Corporation in Yantai, on the east coast, has been awarded the title of "Star Unit" by local officials for expanding into business area in which it has no expertise and, in some cases, almost no hope of success in already overcrowded markets.

But the 2,000 workers, many of them farmers turned factory managers, have built on the early success of a steel plate factory, creating 18 subsidiaries, which churn out instant noodles, mineral water, lifts, and "biotechnicals". Like other work units, they have just ventured into the hotel and taxi business and are building a cluster of villas on a nearby hilltop.

Asked which is the most profitable of the businesses, Mr Li Xueben, a vice general manager at New Asia, signed and said: "The steel plate factory. The production scale at that factory is the largest and the prices are good. The food and drink markets in China are very difficult, but we hope to make a profit with our Xinxin noodles this year."

The relaxation of central control, and the rapid expansion of companies such as New Asia, explains the fall from 12 per cent to 6.5 per cent in the proportion of planned industrial output this year. As well, there was "guidance" in the

form of estimates for about 25 per cent of production, compared with 34 per cent a year ago. China's government has allowed markets to flourish and encouraged competition, but some of the country's largest companies and their managers are ill-equipped for these new conditions. About 31 per cent of state-owned factories reported losses in the first half, but the actual figure is probably far higher, as accounting is one sector still in need of reform.

In Shenyang, the northern heart of Chinese heavy industry, the municipal government estimates that 38 per cent of factories in its care are losing money. The government has asked for extra central funds to ensure that these companies, which double as welfare institutions, can continue to provide housing, kindergarten and leisure facilities for their unwieldy workforces.

Company housing reform began six years ago, but stalled because local governments are reluctant to push rents to levels that make the purchase of a home an attractive alternative. When reform began, debate about the rights of ownership in a socialist country distracted officials, but now the party is hesitant because of its fears of instability.

Balancing rapid development and popular opinion appears to be the guiding principle of the government, but some officials and factory directors are still inspired by ambitious industrial output targets of a kind that once excited Chairman Mao Zedong in his rush for growth. However, in searching for role models, Chinese officials are looking elsewhere.

Mr Cai Weid, deputy director of the Ministry of Machinery Industry, has turned to Japan and its Ministry of International Trade and Industry for an example in guiding Chinese companies. "Their experience has been very inspiring. We have done very careful research on how they handled the period of rapid growth and the reform of industry. We are like Japan in the 1980s."

## Bold plans to sell-off state industries

## Pain in the provinces

Officials in Beijing are debating ambitious proposals for large scale sell-offs of state enterprises

WHILE the debate goes on in Beijing, the reform of state industry is a painful struggle in the provinces between factories and the local government officials who have traditionally ruled over industry.

A year ago, the Chinese government introduced "regulations on the transformation of the operational mechanism of state-owned industrial enterprises", which were supposed to clarify the rights and responsibilities of factory managers, and contribute to the gradual commercialisation of the state sector.

But a government research team dispatched to review the impact of the regulations has found that local machinery and other industrial departments are reluctant to let go of their control over the factories, particularly those not large enough to have a network of influence in Beijing.

Mr Zhu Rongji, the vice-premier, was expected to raise this issue at a meeting of the Communist Party's central committee which began last week, and also wanted delegates to approve the wide-spread auctioning of small and medium-sized state factories, intended to shift some responsibility for loss-making companies away from the state.

Mr Zhu is concerned by a separate obstacle to the party's attempts to turn state industries into corporate entities, similar in responsibility, if not ownership structure, to a west-



Oil workers drilling in China's western Tarim Basin. (Photo: David Owen/Reuters)

ern company. Chinese ministries and their myriad, sometimes loosely-linked departments and branches have been spinning off new companies at a remarkable rate, again blurring the lines between government and industry. One reason for the backlash against Mr Zhu's efforts to cool the economy is that it has hurt these newly-emerging companies, involved in everything from property development to the personal computer trade. The government departments were annoyed that bank lending slowed just as they were reaching for their piece of the action.

But these government departments and their corporate ventures are competing unfairly against established companies and other new entrants. They are often responsible for issuing business licences, a privilege they are prone to abuse, and they control state funds for their industry, which is naturally kept in the corporate family.

In the longer term, the government is planning to shift the welfare functions away

from state factories, for example, by encouraging home ownership and establishing a public insurance scheme that will cover the cost of welfare benefits. These reforms remain experimental, and, as a northern Chinese factory manager complained, he has to pay market rates for raw materials, and still provide all the old social services.

If the responsibilities of Chinese companies become more corporate, then the government will be able to introduce an ownership scheme, proposed by a group of young Beijing economists, which would create four distinct types of shareholders, and ensure that the companies can still be called state-owned. Shares will be held by a state investment fund, linked to the present departments responsible for industry, and there will be cross-ownership by suppliers and friendly companies similar to the Japanese keiretsu system, as well as sales of shares to employees and investors.

Robert Thomson

Tony Walker reports on the dramatic expansion plans of an engineering giant

## Shougang has international ambitions



China this year will produce 80m tonnes of steel. (Photo by Hugh Routledge)

fields of finance and foreign trade. There is little, it seems, that Shougang cannot do.

Mr Pan Huan Yuan, Vice President of International Operations and a Shougang board member, said that the company's ambition was to become a "trans-national enterprise". A decision to accelerate the expansion of its activities abroad had been taken by directors late last year.

In fact, Shougang, which ranks as China's fourth largest industrial enterprise and third biggest steel producer, had already signalled its ambitions in the international market place.

Through its wholly-owned subsidiary Shougang Holding (Hong Kong) Ltd, it had begun swooping on a clutch of listed Hong Kong companies, and in the process forged some powerful alliances, including

partnership with billionaire Li Ka-shing in a steel company - Shougang Concord International Enterprises, previously known as Tung Wing Steel Holdings.

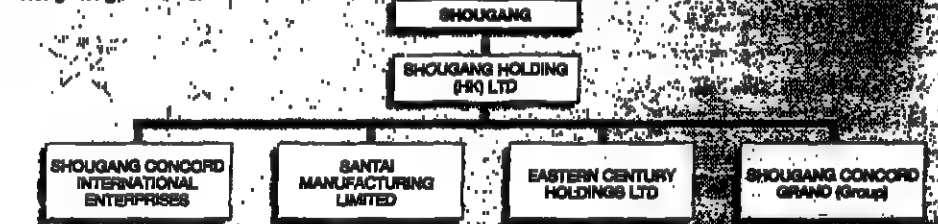
Other Hong Kong investments include interests in a metals trading company, an electronic-component manufacturer and a property company. Among partners in the property company, known as the Shougang Concord Grand (Group) is Mr Deng Xiaoping, the son of Mr Deng Xiaoping himself. These connections will have done no harm to Shougang's global ambitions.

Shougang's move into Hong Kong has enabled it to secure "back door" listings on the local stock exchange, opening up prospects of the steel giant transferring some of its mainland interests to these listed companies. The company's Hong Kong investments will also facilitate additional capital raising in the local market.

Mr Pan says that in selecting Hong Kong as a "fortress" for its international ambitions, Shougang was mindful of its

## Capital iron and steel works

Hong Kong Investments



advantages as a "centre of finance, information and communications." But he also made it clear that the company was intent on seeking opportunities in the wider world.

"Shougang is interested in everything, although, of course, we are not interested in running a cemetery," he declares.

To this end, the company took control of the Mesta Engineering Company of the US in 1980 and last year it purchased an iron-ore mine in Peru for US\$130m. It is now looking for further investments in the mining sector in places like Latin America,

Australia and South Africa.

In China itself, the company began in 1979, after reaching agreement with the authorities on a new "responsibility system" under which it was allowed to retain a share of its profits for re-investment, diversifying into such areas as construction, real estate, electronics, ship-building, shipping, the manufacture of auto parts and textiles.

Shougang's employees number 280,000, the majority of whom are engaged in either operating the company's iron-ore mine near Tangshan, north of Beijing, or at the Beijing plant which resembles a small

town with 60-70,000 people resident there, and engaged predominantly in steel-making activities.

Steel-making accounts for about 80 per cent of Shougang's profits which are expected to reach Yn4.6bn (US\$670m) this year, compared with Yn299m in 1978, the year before the introduction of the responsibility system of profit-sharing with the state.

Steel-making would remain the focus of Shougang's endeavours in spite of its diversification strategy, said Mr Pan. The company expected to lift production to 8.5m tonnes of steel by the end of 1994, up from

5.7m tonnes in 1992.

At present, the steelmaker ranks third in production behind the Anshan works in Liaoning province, but plans to be number one in China by the end of the century. Another ambition is to be ranked among the world's top 10 steel manufacturers. China this year will produce about 80m tonnes of steel, making it the world's third largest producer behind the US and Japan.

The Shougang official noted that per capita steel consumption in China was less than 70 kilograms compared the world average of 150 kilograms. This left much scope for increased business, as China became more affluent.

"China's 280m families need more and more steel products," he says.

Apart from its Beijing plant which will reach its maximum production capacity of 10m tonnes by the turn of the century, Shougang is planning a giant new steel-making facility in Shandong province, southeast of Beijing.

In partnership with Mr Li Ka-shing's Cheung Kong Holdings, the company will invest Yn22bn in the first phase whose production would reach 5m tonnes annually. A second phase would double capacity to 10m tonnes. Shougang could not be accused of lacking ambition... or connections.

## A fresh approach by the US

Continued from previous page

revoked if there is not significant progress on human rights, trade and nuclear proliferation issues.

The US has also stepped up pressure on China by imposing sanctions because of weapons sales to Pakistan. Relations were further impaired by US pursuit of a Chinese ship it suspected of carrying poison gas ingredients to Iran. An inspection found no trace of them and China demanded an apology.

But on the other hand, Mr Clinton has sent a number of top officials to Beijing to engage China in much higher-level discussions on issues such as trade, human rights, agriculture and military matters.

The US agriculture secretary, Mr Mike Espy, last month became the first of Mr Clinton's cabinet to visit Beijing and senior officials from the State and Defense departments as well as the deputy US Trade Representative have all held talks there.

This contrasts with the approach of the Bush administration, which substantially reduced official contacts after the 1989 Tiananmen Square killings but resisted congressional pressure to set conditions on MFN renewal.

The Bush approach provoked fierce criticism from congress members concerned about human rights, but also

caused alarm among academics and businessmen who saw Washington failing effectively to address China's growing economic power and regional influence.

The new US task is an attempt to construct an overarching policy of engagement with the aim that issues which are thorny, such as trade and human rights, become simply part of a much broader relationship and lose the high profile which hampers progress.

China insists that trade and human rights should be treated as separate issues

upon them. It recognises not only China's sheer complexity but also its rapid economic development, in which US business is deeply involved, and its growing regional links.

Recent contacts have been friendly and US officials see scattered signs of progress, for example on specific trade issues such as pirating of copyright. China has undertaken to publish all regulations relating to trade in a new official gazette, removing the bugbear of secret rules. There are hints of a closer understanding on implementation of a memorandum on prison labour.

However, in spite of these indications, US officials are also at pains to make clear

that the threat of MFN termination is real. Mr Warren Christopher, secretary of state, told businessmen last month that MFN could not be renewed next June unless there was steady and significant progress on human rights, trade and nuclear proliferation.

The US demands are mainly general. But US officials said specific progress must be seen in implementation of the memorandum on exports of prison-produced goods, and on the granting of passports to eligible Chinese citizens who wish to travel.

The picture as seen from the US is mixed. China is thought to have freed most of the dissidents who were arrested for their 1989 activities in the Tiananmen Square demonstrations, and has released some other dissidents. However, it also launched a further round of arrests of dissidents and reporters and new trials are expected soon.

Against the greater freedom of speech now evident in China must be set a recent official announcement which could signal a clampdown on satellite receivers which allow millions of Chinese to watch the Hong Kong-based Star Television network and other satellite broadcasters.

China's view of these issues starts from an entirely different position and results in vehement rejection of the US approach.

The Beijing government's concerns are principally domestic, with its main foreign policy objectives being preservation of its borders and the development of friendly relations with all countries so as to permit continued economic development. It believes that development of the economy takes precedence over pursuit of a western concept of human rights. Beijing rejects the idea that a developed China poses a threat to the world as "shallow".

It says that trade and human rights are separate issues which should be treated as such, and that MFN is normal practice rather than a favour for the US to grant.

Termination of MFN status would be a double-edged sword, says Mr Wu Jianmin, foreign ministry spokesman.

"Both China and the US will be hurt," he says, pointing out that the two governments have common interests in economic development.

"A lot of Americans do not really understand much about China," says Mr Wu. "Quite often there is a gap between people's perception and reality."

Mr Wu wants closer contacts including further visits by US senators and congressmen. When they visit, he says, they "come to realise that we are not talking about human rights on the moon or in a vacuum. We are talking about human rights on the earth."

AS 1993 draws to a close, China faces mounting challenges in its attempt to regain sovereignty over Hong Kong and Taiwan.

Its negotiations with Britain about Hong Kong's political development have gone badly, raising the possibility that the much sought after "smooth transition" in 1997 from British to Chinese rule will be unattainable.

Across the straits on Taiwan, the island's political social development is leading it further away from reunification with the mainland, in spite of growing economic relations which are pulling the two economies closer together.

One of first tasks Mr Deng Xiaoping, China's senior leader, set himself on his return to power in late 1978 was to deal with these two problems which were left unresolved by the communists' assumption of power in 1949.

China's revolution was strongly nationalistic in character. The British and Portuguese colonies of Hong Kong and Macao were symbols of past humiliations by foreign powers. Their existence for most of the post-war period was tolerated because of the access they afforded China to the outside world in the aftermath of its enforced isolation following the Korean War.

Taiwan was a different matter. It housed the remnants of the Kuomintang (KMT, Nationalist) government which the communists had defeated in a civil war which raged in earnest from 1945 until 1949.

Both issues, however, came together under the rubric of

## HONG KONG/TAIWAN

## Challenges ahead

"uniting the motherland." Mr Deng's solution to these two different problems, "one country, two systems," was first applied to Hong Kong (and later Macao).

Today, Chinese government officials in charge of Hong Kong and Taiwanese affairs face very different problems, problems which reflect the relative strength in both areas.

These in charge of Hong Kong evince confidence in their ability to manage the colony in the absence of agreement on Hong Kong's political development. They draw comfort from the enmeshing of Hong Kong's economy with China's and from the colony's aversion to confrontation with Beijing.

CHINA has said that if Hong Kong's political development proceeds without its consent then, come 1997, it will hold fresh elections for the 60-strong Legislative Council, the colony's law-making body. It has also threatened British economic interests in Hong Kong and on the mainland while at the same time promising to safeguard Hong Kong and Chinese economic interests.

In July, China set up a "preparatory working committee" consisting of mainland officials and a selection of Hong Kong

plutocrats. Its role is to provide detailed advice to a "preparatory committee" - which comes into being in 1996 - on all aspects of Hong Kong's political, social and economic life.

Mr Li Ping, director of the Hong Kong and Macao Affairs Office of the State Council (or cabinet), says: "If there is no agreement, which we do not want to see, Hong Kong will still go on and continue to be prosperous and an international financial centre... Hong Kong will not collapse."

For officials in charge of Taiwan the situation is radically different. In spite of this year's thaw in relations, which saw an historic meeting of mainland and Taiwanese officials in Singapore in April, Beijing officials admit that Taiwan holds the cards in dictating the pace of contacts and eventual unification.

Mr Zhang Ming Qing, a senior official at the Office of Taiwan Affairs in the State Council, says: "I should not say that we have acquiesced in slowing down the talks [about reunification], but there is nothing we can do. It largely depends on them [the Taiwanese government] whether they want to sit down and talk."

Regional trade issues: the presence in Seattle of Mr Jiang Zemin, China's president, for this week's meeting of the Asia

Pacific Economic Co-operation (Apec) forum is of more than just symbolic importance. It underlines China's growing role as a political and economic superpower in the region.

In terms of regional trade policies China is keen to cloak itself in the banner of free trade and will resist turning Apec into an Asian version of the European Community.

Mr Wu Jianmin, spokesman for the Chinese foreign ministry, says: "We see Apec as an open trade bloc, rather than a closed one. We are not in favour of an exclusive, formalised trade bloc but one open to all."

A little over a decade ago China's trade with the members of the Association of South East Asian Nations (Asean) was \$800m; today it stands at more than \$2bn.

The combination of China's open door policy and the enthusiasm of the estimated 40m overseas Chinese - most of whom live in the region - for mainland investments will help underwrite further rapid expansion of regional trade in the coming years.

China has sought strenuously to build relations with other Asian countries in recent years.

Simon Holberton



or more than likely the very least Russia is likely to need World Bank help if it is to proceed. In the Ukraine, unable and

Mr Henry Carter, chairman of the WANO governing board and deputy general manager of Electricite de France, told the

fuels and other resources which the nuclear industry has little control.



**T**HE DALIAN Machine Tool Works, maker of lathes, boring machines and other important industrial equipment, is the type of factory in which China's legendary model workers were supposed to have toiled ceaselessly and selflessly for the sake of the proletariat.

Mr Zhou Kui, the factory's director and Communist party secretary, now finds himself at the centre of a sensitive debate over the reform of state industry and the rights of workers to leave the state sector and take their skills to collectively-run or private companies.

Over the past year, the machine tool factory has lost 71 of its employees, many of them managers and senior engineers, to a small company, Bohai Machinery Plant, established late last year on the fringe of Dalian, a northern port.

The case has received national coverage, with the departing workers asserting that "if you want to have a market economy, competition is inevitable."

However, Mr Zhou complained in a state newspaper that "they are digging at our wall publicly" and "some of our departments are half-closed".

The remarks prompted letters from factory managers who either agreed with Mr Zhou or thought that he had to accept the defections as part of managing a factory in modern China. But the replies also highlighted the welfare burden faced by large state-owned factories, which run kindergartens, provide housing and bear most of the costs of keeping retired workers and their families.

A tractor factory manager wrote to the Economic Daily complaining that his company



Overseas interest: a delegation of Japanese businessmen inspect facilities in Dalian

#### Profile: Dalian Machine Tool Works

## The market's burdens

had 40,000 workers, 100,000 relatives and 20,000 retirees, and "we have to take care of everything - how they eat, drink, and sleep." His complaint was that it is disadvantageous to the domestic and international markets.

**H**AVING been surrounded by political controversy, Mr Zhou is now careful in his choice of words. He began talking about the resignations by emphasising that he and the Dalian Machine Tool Works are committed to economic reform, and that the factory has imported new machinery in the state-approved quest for quality.

But he also makes clear that

the factory has a long and honourable history of serving the state, which he thinks should count for something even in the middle of reform. "We have won many awards for our products since our founding in 1948. We have contributed to the growth of China's industry."

Mr Zhou did not directly criticise the senior staff who resigned, and made a point of mentioning that the exchange of talents was a natural result of the market economy, which suggests that he has been doing his duty as party secretary by taking note of the pro-reform editorials in the People's Daily.

However, he thinks that the exchange should be gradual, and not be allowed to damage

state-owned companies, which do not have the flexibility enjoyed by their smaller competitors. "We are trying to make the transition to the market, but it is not easy because we have been part of a planned economy for a long time, and must deal with overstaffing and other difficult issues."

Mr Zhou is unable, for example, to dismiss a few hundred of the factory's 6,500 workers without government approval and without the danger of impoverishing those employees, as Beijing has yet to put a social safety net in place. He sees these changes taking a long time, and implies that state-owned companies need assistance in the meantime.

"We still have some planning

and regulations from the central government, and even in a developed market economy there should be some regulations. After the perfection of regulations, our development will become more orderly and reasonable," he said.

Mr Zhou is not the only factory head to think that reform has created disorder. The director of the Luoyang Copper Products Factory wrote that he experienced "bitter and sour tastes" similar to those felt at the Dalian Machine Tool Works, and is unable to overhaul the factory, despite appreciating the need for change.

"Some people say that the state has invested a lot of money in our factory, and that we should be able to revitalise our operations. It's not that we don't want to do it or that we don't have ability. There is really nothing we can do. We are like a big elephant being eaten away by ants."

Robert Thomson

#### Anshan rescues Shenyang Steel

## Loss-maker is given a new parent

**J**UST inside the entrance to the Shenyang Steel Sheet Works, a banner congratulates employees on their becoming members of the Anshan Steel family, which benevolently adopted a company that has consistently lost money for the past decade.

Shenyang Steel is typical of northern China's ailing manufacturers, slipping far behind the competition on quality but too poor to overhaul equipment installed in the 1950s and, in this case, unable even to buy raw materials.

The factory last year officially lost ¥12.66m, though the actual loss was double that amount, according to one manager. It has about ¥100m in outstanding loans from banks, 4,000 mostly idle workers and a potential output of 100,000 tonnes of steel, though last year it produced only 18,000 tonnes.

"We produced only for 75 days last year because we didn't have enough materials," explains Mr Lu Zhe, head of Shenyang Steel's business department. "We had no option but to be taken over by a company like Anshan. We have been trying to find a partner since 1991."

Mergers and takeovers are encouraged as an alternative to bankruptcy, still a touchy issue in Shenyang. In 1987, the city announced that an explosive materials factory had

failed, but the resulting controversy surprised local officials and the city has not had another bankruptcy since then.

The idea of state-approved takeovers is that the stronger partner, Anshan, the largest steel producer in northern China, will reform the management of the company and replace the outdated equipment. But, in the four months since agreement was reached, Anshan has not changed the senior management and the factory is still working well below capacity.

One cause of Shenyang Steel's woes was the government's decision to remove subsidies from material prices, which rose to levels that the company could not afford. As Mr Lu put it, before 1992, "the state provided materials for us, but from last year the state stopped providing those materials," speeding its collapse.

"We are determined to learn advanced management skills from Anshan," Mr Lu says. But the managers at Shenyang do not expect that Anshan will want to control the company, and emphasise that they will be able to trade themselves out of trouble, given a continuing flow of money from Anshan.

Another worker at the factory insisted that the "state still owns the factory," even though Shenyang Steel has

signed a contract making it responsible for profits and losses. "This is not like the system in the west - this is a socialist country and the state remains responsible for the assets and the workers."

His comments indicate the difficulty faced by the government in handling workers facing dismissal at loss-making companies. The arrival of Anshan is seen by workers as the state acting, in another form, to ensure that Shenyang Steel continues to operate regardless of its lack of profitability.

Mr Lu said his company is trying a few new tactics in the quest for profits. It is attempting to find a market for the waste steel materials rusting outside the main workshop, and is about to open a hotel, a popular but not necessarily profitable diversification by Chinese manufacturers.

"We are doing our best to avoid cutting the staff. We have changed the working system by putting employees into smaller units and we plan to open service businesses," says Mr Lu. "In the past, the government assigned people to the factory and we are still responsible for looking after them. We run a kindergarten and perform other government functions, so we should get help."

Robert Thomson

**T**HE UNPACKED boxes with bright red General Motors markings stacked around a Shenyang factory tell of the difficulties facing the US vehicle maker in its joint venture in the northern Chinese industrial city, writes Robert Thomson.

Each box contains part of a pick-up truck, but the assembly line has stalled along with sales, and GM's partner, the Jinbei (Gold Corp) Automotive Company, claims that the model is unsuitable for Chinese conditions and that the price of ¥180,000 is beyond the means of most work units.

Mr Zhang Defa, vice director of Jinbei, said the joint venture has only put together 300 of 500 pick-up kits imported in the past year, while existing production lines are still churning out Jinbei's standard commercial van. He suggests that the fruits of co-operation have not been to either partner's taste.

"There is no market for the GM truck. Chinese consumers are not very accustomed to this kind of two-seater vehicle and it is very difficult to sell."

"We are now negotiating with them to build a four-seater vehicle which would be better suited for China," Mr Zhang says.

Dealing with Jinbei has not been easy for GM or for Toyota Motor, which has a technical tie-up for minibus production with the Shenyang company, which is eager to boast that it is the 37th largest enterprise in China and has 40 per cent of the minibus market.

Jinbei's close links to the Shenyang government make it difficult for partners to resolve disputes locally, but Volkswagen found in its venture in larger, less provincial, Shanghai that it could tap support from government



All crated up and going nowhere fast: GM joint venture materials

#### Troubled joint ventures

## Bumpy road for car groups

officials who owed no personal loyalty to its partner.

Mr Zhang suggests that negotiations for a production joint venture with Toyota are in the final phase: "It is very good to have technical co-operation, but we would like them to make an investment and be involved in the design of the car."

Toyota, the Japanese car maker, insists that there are many areas of disagreement and a contract is far from signed. "The Chinese side would like to think we are close to an agreement." One obstacle is Jinbei's lack of

openness about its financial operations.

The Japanese company discovered that the Hong Kong-based Brilliance group, through which Toyota has the technical tie-up with Jinbei, established a Bermuda-registered company, Brilliance China Automotive Holdings. This became the first Chinese mainland company, via Bermuda, to be listed on the New York exchange late last year.

According to Mr Zhang, Jinbei itself was not listed, though 25 per cent of the Toyota-linked minibus production venture was listed by the Hong

Kong-based Brilliance. Toyota says that it was not told of the listing until after the event: "Our name was used in some of the publicity materials, but we didn't know."

"The Brilliance issue does not affect the ownership of Jinbei," Mr Zhang says.

"I have no idea what the share price is now. I know that the share price went up on the first day of listing, but that is all I know because we have no reason to watch the price."

However, the vehicle maker's own brochure talks of the "Brilliance-Jinbei" listing, and has a photograph of Jinbei officials in the company of Mr Jiang Zemin, the Communist party general secretary, who is supposed to have said that "Jinbei has connected the finance line with the US and the world."

At the time of the listing, the New York exchange was presented with a painting depicting "a hundred birds worshipping the phoenix," which, Jinbei explains, symbolised the hundreds of state-owned Chinese companies flying toward the US stock market for a listing.

But the listing stirred opposition in Beijing where some Communist party officials were furious that the Shenyang company and its charismatic chairman, Mr Zhao Xiyun, had proceeded.

Toyota is still angry, and wonders whether its future in China should be tied to a company with an erratic management record.

The Japanese maker is also yet to solve the issues that haunt most joint venture negotiations, including the value of existing assets that Jinbei sees as its contribution to the project, and the composition of the workforce, as well as the role of the imported management.

#### CAR PRODUCTION

## More joint ventures are sought

**W**HEN a delegation of Japanese car executives arrived in Beijing earlier this month to pay their respects to a fast-growing market, they were well briefed about the difference between the hard-won opportunities of China.

For the past decade, Japanese makers have been generally content with technical tie-ups and exports, not risking much of their own money or prestige in the joint ventures preferred by international competitors such as Volkswagen, which has two large projects, and Citroën.

"Chinese officials always tell us that we must pay a premium for being late to the market. They say that Volkswagen took a risk and has been rewarded - and that we should pay extra for starting up now," a Japanese company representative explains.

While the Chinese government warned the Japanese delegation about not missing out on a share of the world's fastest-growing car market, the government itself is divided over the development of the industry, and over the pace at which a

tariff and tax wall of between 240 per cent and 300 per cent should be lowered.

China's leading car companies are courting joint venture projects, even though Chairman Mao Zedong is reputed to have said: "At last I'm sitting in a car made by Chinese" when the Number One Motor Vehicle Plant in Changchun began producing East Wind cars in 1988.

In the meantime, Chinese makers have slipped far behind their competitors in technology and quality. Economic reform has stimulated demand for new vehicles and has highlighted the deficiencies of the local product and producers, which are among the most politically-influential of the country's companies.

One sign of that influence, and of concern about the use of foreign exchange, is the unpublicised understanding within the government that imported vehicles should account for only 10 per cent of total sales. The government had aimed for a 25 per cent increase in local production to around 900,000 vehicles this year, and wanted to keep imports to between 70,000 and 80,000 vehicles.

"The pace of economic development means that the import

level is likely to be between 90,000 and 100,000, and will at least be 80,000 vehicles," a Chinese government report predicts. However, the report also reflects concerns that China's desired admission to the General Agreement on Tariffs and Trade will create extra pressure to open the market.

But, as in so many industries, the official Chinese figures tell only part of the automotive story. They grossly

underestimate the level of imports, as Japanese companies exported 96,983 vehicles to China last year, up from 20,573 in 1990, and not including those shipped through Hong Kong.

The Communist party's discipline inspection committee is apparently investigating illegal imports of South Korean cars from Shandong province, in the east. Imports of used Japanese cars have come through a Korean minority area in northern China, with much of the profit being taken by North

Korean organisers.

To cool the car market, Mr Zhao Zongshi, the vice premier, suspended purchases by government offices, which has slowed the flow of exports from Japan. Production in the first half was running at 45 per cent above last year's level, but the China National Automotive Industry Corporation said production and sales fell by just over 10 per cent in August, compared to a month earlier.

One reason for the low expectations of the Japanese delegation, sponsored by the Ministry of International Trade and Industry in Tokyo, are recent hints from senior Chinese automotive officials that the government does not expect to approve another large-scale joint venture until 1996.

Chinese officials have suggested that three large ventures, the two Volkswagen projects and that of Citroën, will cover demand for cars. It is also argued that three commercial vehicle and light truck plants, including Beijing Jeep, and two mini-vehicle projects, involving Suzuki Motor and Fuji Heavy Industries, the maker of Subaru cars, are enough for the next three years and, perhaps, until 2000.

Robert Thomson

#### SCIENTIFIC RESEARCH

## Trying to bridge the gap

**A** LONG Tian Lin, a kilometre-long stretch of road in West Shanghai, dozens of newly-built computer shops are taking the plastic wrappings off their signs and preparing to start business. Managers of the electronics factories along Tian Lin expect that within months it will be packed with customers, who will be able to walk away with almost any kind of computer or component they want.

The Chinese government hopes that many of the goods in streets like Tian Lin will eventually be Chinese-made. But that will depend on a transformation taking place in Chinese science and technology - one of the government's priorities since opening up the economy.

The central questions are how much that transformation will depend on importing technology, and whether China can develop a vigorous research base of its own.

Chinese science lost a generation of scientists and technicians during the Cultural Revolution, when many of the best were sent to work on the fields. Though many were later reinstated, those who held doctorate degrees from western universities before the turmoil are now mostly over 70 years old.

The current scale of scientific and technological research is huge: some 5,000 research institutes - generally separate from the universities - which are directed and funded by the Beijing-based Academy of Science, Industry, regional colleges and the military.

However Professor Zhu Lilan, a polymer chemist who is vice minister of the State Science and Technology Commission, estimates that Chinese scientific research, while strong in some subjects, is still a decade behind the cutting edge of world science. In some areas, such as communications and nuclear science, China has been able to take advantage of an overlap between military and civil interests.

But according to western diplomats, "a shortage of money to buy equipment has been a handicap in the natural sciences (physics, chemistry, biology), while the social sciences still look stunted - they don't yet have enough autonomy (from state ideology)".

China's attempts to improve its science are focusing on areas which might yield commercial applications. However, researchers' "lack of understanding of the market" is a formidable obstacle, admits a ministry official.

One response has been to collaborate with foreign scientific research institutes, particularly in the US, and with foreign investors, especially in electronics and telecommunications.

To bridge the gap, the government has been sending science students abroad to study - although half do not return, according to the science ministry.

Prof Zhu takes a benevolent view of this: "The world is becoming more open - a global village. You cannot say any more who can go where, but it does not matter for science where scientists work."

She adds that "the important thing is to create better conditions here so that they return". In western diplomats' eyes, however, "there is some debate whether it has been a conscious part of government policy to let them go because the country has not up to now been able to absorb them".

China's attempts to improve its science are focusing on areas which might yield commercial applications. However, researchers' "lack of understanding of the market" is a formidable obstacle, admits a ministry official.

One response has been to collaborate with foreign scientific research institutes, particularly in the US, and with foreign investors, especially in

electronics and telecommunications.

The electronics ministry, which estimates that the sector is now 5 per cent of industrial output, believes that some \$50n has been invested in joint ventures.

To encourage investment, the Chinese government has begun to pay attention to the question of protection for copyright and intellectual property. IBM, the computer giant, among many other companies, has cited this as a considerable concern, although Beijing ministers insist that legal redress for such theft is possible.

Meanwhile, as China grapples with these problems, there is little doubt of the thirst for technological products.

Beijing's largest bookstore, in the Wangfujing shopping district, is evidence alone: one of the fastest-selling technology books is a manual on Microsoft Windows, the US-designed personal computer software that has won worldwide popularity. It may, though, be many years before Chinese companies mount a challenge.

Bronwen Maddox

#### DENTON HALL

#### International Lawyers

advising on trade, investment and finance in the People's Republic of China, including

Telecommunications  
Energy  
Infrastructure Projects  
Corporate Finance

John Kuzmik  
Denton Hall  
10/F Hutchison House  
Harcourt Road  
Central  
Hong Kong

Telephone 852 8206272  
Fax 852 8106434

Audrey Leung  
Denton Hall  
3325 China World Tower  
China World Trade Centre  
1 Jianguomenwai Avenue  
Beijing 10004

Telephone 86 1 505 4891/2  
Fax 86 1 505 4893

Antony Grant  
Denton Hall  
Five Chancery Lane  
Clifford's Inn  
London EC4A 3BU

Telephone 071 242 1212  
Fax 071 404 0087

BEIJING • BRUSSELS • HONG KONG • LONDON • LOS ANGELES • MOSCOW • SINGAPORE • TOKYO  
MEMBER OF THE DENTON INTERNATIONAL GROUP OF LAW FIRMS



## CHINA 10

## Rural areas/social policies

An upheaval is under way in China's rural heartland. Here and on the facing page, FT writers report on agriculture, labour, environmental, housing, labour and population issues



Many farm workers migrate to the cities, reports Bronwen Maddox

## New tensions emerge

**A**N upheaval is under way in China's rural heartland where 900m people - three-quarters of the population - still live. Millions are starting to move to the cities, marking one of the biggest population shifts in China's history.

The migration has presented Beijing officials with an alarming vision of the social transformation set in train by their reforms.

The huddles of people camped in Beijing's railway station testify to the scale of the changes. Mr Du Wen, 39, from a farming family in the south-west, has crossed the width of China with his friends to find work on the construction sites of the north-east.

"Jobs are easy to find up there, but there are no jobs at home at all," he says.

The current problems in agriculture partly stem from the successes of the past 15 years of liberalisation. The commune system imposed on

farmers in the 1960s and 1970s sharply reduced agricultural yields, and output barely kept pace with the fast-growing population.

However, after 1979, peasant households were allocated their own plots of land under contract. After fulfilling local quotas, they were allowed to sell the surplus in the markets that began to emerge.

In the past two years, the government has also lifted state controls on most agricultural prices, and by the middle of this year, controls on grain and other food prices had disappeared in most parts of the country, the International Monetary Fund reports.

The surge in agricultural output since 1979 was one of the first clear successes of the liberalisation programme and has given the government confidence to reform the industrial sector.

But new tensions have emerged. The leap in agricultural productivity coincided

with a steady rise in China's population, and Beijing ministries estimate that at least 130m of the total 333m agricultural labour force are now surplus to needs.

On some ministry estimates, this figure could reach 200m by the end of the decade.

Hence the migration - many of those people are now leaving

Today's migration from the rural heartland is one of the biggest population shifts in China's history

their home provinces to look for work on construction sites or as maids, enticed by stories of bright lights and big cities.

Discontent is also rising among those still on the farms. Although the rural standard of living has risen in the past decade, the gap between rural and town incomes has widened; official figures say that per capita income for peasants

is 1970 a year, less half that in the cities.

In the past two years, farmers have seen their incomes squeezed by a fall in prices for grains, while the costs of fuel, water, pesticides and fertilisers have risen steeply.

Their grievances were inflamed further in the spring when local banks failed to honour government IOUs for grain purchases.

One western diplomat says: "The problem arose partly because many local officials still regard peasants as serfs and don't take their needs seriously."

Although the central government gives the provinces money to buy the grain, many regions used their growing independence from Beijing to invest the money in real estate - they then lacked enough money to pay farmers.

Provincial independence, combined with farmers' preference for growing only the most profitable vegetables, has

given Beijing a further headache: production of some of the most important crops has become volatile.

Following a disastrous cotton crop last year, production levels are expected to slump, even though China relies heavily on cotton production for textile exports.

Tensions came to a head in Henan and Sichuan provinces in May and June when peasants, enraged by layers of taxes imposed on them, rioted and attacked local government officials.

Beijing ministries were clearly rattled: "The riots and the migration have told them that they are losing social control," says one western observer.

The government has wielded a range of tools to pacify the farmers and stabilise output of the main crops.

It has ordered local banks to pay farmers promptly for the autumn harvest - the next few months will show whether this has been heeded. It has also continued to raise the price it pays farmers for some crops, and tried to establish a minimum price for the main grains.

Further rises are in the pipeline, the agriculture ministry says, although the government's room for manoeuvre may be limited as the price of soyabean, cotton and corn is already close to world market prices. Beijing has also tried to put a ceiling on fertiliser costs, and is compensating farmers for some of the increases.

According to the ministry of agriculture, the government is reconciled to maintaining these subsidies as the price of peace. Mr Xu Haijiang, division chief of its international divi-



Village vegetable market; production of certain key crops has become volatile

Picture: Peter Robinson/Corbis Press

sion, and Mr Liu Zhenwei, deputy director of its central administration, says: "In the past, the government used to pay a lot of subsidies for consumers and for factories. Now these subsidies are being reallocated to farmers."

Meanwhile, Beijing is taking steps to control migration directly. In the past few months thousands who were camped indefinitely at Beijing railway station have been dispatched home.

During the rest of the decade, Beijing hopes that

mushrooming rural businesses will soak up 50m of surplus rural labour. The government also plans to create 12,000 new small towns to absorb a further 20m, the agriculture ministry says.

Beijing officials and western diplomats agree that China is not about to run short of food. Transportation problems may mean some regions find some foods hard to obtain but "there is no shortage of farmers, no fallow land and no crisis of falling yields," says one western observer.

But Beijing will eventually be confronted by the social consequences of the changes it has set rolling, and by a difficult conundrum.

Continuing to cushion the farmers from price liberalisation is expensive, removing the protection risks further loss of control; reversing the reforms jeopardises the past decade's success.

In the agriculture ministry's words, the government's recent measures "will alleviate the problems - but they will not solve them."

**O**NE OF the best tests of whether China can get to grips with pollution will be its success in improving supplies of clean water. At the moment, the cities, industry and agriculture are tussling over an increasingly scarce resource.

Tianjin, located 100km south-east from Beijing, has recently seen part of its water supply diverted to Beijing, after a new reservoir was built upstream.

It is now rapidly approaching a ceiling: it uses 90 per cent of the remaining water and demand is still rising.

Tianjin's Environmental Protection Bureau acknowledges the dangers that water shortage poses to its regional

Shortages are made worse by the pollution of rivers and water tables

## A tussle over water supplies

development, but the solution - building more reservoirs - is expensive.

Reports by China's National Environmental Protection Agency (NEPA) and the World Bank show that the main cities frequently extract too much groundwater.

Thousands of square kilo-

metres of land have subsided around Beijing and Tianjin because of over-extraction of groundwater.

Overall, subsidence has been detected in 45 large and medium-sized cities.

The shortages are exacerbated by pollution of rivers and water tables. Much of the

country's liquid and solid waste ends up eventually in one of the seven main river basins.

The pollution is rapidly cutting fishery yields. Annual breeding of the four main fishes in the Yangtze river declined from 20bn in the 1970s to the present 1bn, according to NEPA reports.

Meanwhile, poor drainage and accumulation of salt has cut yields on nearly 7m hectares of irrigated cropland, sometimes by 25 per cent, the World Bank study found.

Around 1.4m hectares are irrigated by polluted water, leaving poisonous heavy metals in the crops.

Bronwen Maddox



Pictured here are children in the crowded city of Chongqing in Sichuan Province. China's new fertility rate is now nearly as low as that of western Europe and the US. Much foreign criticism has centred on press reports of compulsory abortion and sterilisation in China. Picture by Danny Green

Experts search for reasons for a dip in the fertility rates

## The population puzzle

**S**HANGHAI'S population has stopped growing because the birth rate has fallen so low, according to China's ministry of family planning. That claim does not take account of peasants flocking to the city's construction sites or the sprawl of the new suburbs. But if true, it reflects the success of China's population programme, one of the most ambitious and internationally controversial aspects of its policy.

For nearly two decades, China has been trying to curb the growth of its population in order to raise living standards and restrain pressure on scarce resources. Latest government figures put the total at 1.17bn; China now has a nearly quarter of the world's population on around seven per cent of the world's arable land.

Estimates of the future population are staggering. The United Nations' central projection is that by 2050, the total could reach 1.52bn.

But tiny changes in assumptions about family size produce a wide range: from as little as 1.23bn in 2050 up to an astounding 1.9bn in 2050 (and 2.4bn in 2150), although demographers regard the highest fig-

ures as unlikely.

The core of China's policy is to limit couples to one child, mainly through financial incentives. In Beijing, couples pay 10 per cent of their income for a second child and a further 15 per cent for a third. In practice, they may also lose promotion, housing and other benefits.

The programme has also aggressively promoted contraception, principally intra-uter-

ine devices, sterilisation, condoms and pills. Abortion is also widely available; the ministry reports one abortion for every two live births.

Much foreign criticism has centred on press reports of compulsory abortion and sterilisation. Beijing has generally called these reports exaggerated, but the family planning ministry acknowledges that some local officials may be inadequately trained - "around 60 per cent of staff at township level left school at around 15 years old - they do not have enough knowledge of

contraceptives," says the ministry.

It is clear that the policy has had a dramatic effect. According to government figures this year, the fertility rate - the average number of children per woman implied by current birth rates - has fallen to around 1.9 from 2.25 in 1990. That is nearly as low as western European and US rates, and less than half that of India.

The reasons for the fall have

been a fall in fertility levels, estimates of the future population of China are staggering. By the year 2050, the total population could reach 1.52bn.

ine devices, sterilisation, condoms and pills. Abortion is also widely available; the ministry reports one abortion for every two live births.

Much foreign criticism has centred on press reports of compulsory abortion and sterilisation. Beijing has generally called these reports exaggerated, but the family planning ministry acknowledges that some local officials may be inadequately trained - "around 60 per cent of staff at township level left school at around 15 years old - they do not have enough knowledge of

contraceptives," says the ministry. It is clear that the policy has had a dramatic effect. According to government figures this year, the fertility rate - the average number of children per woman implied by current birth rates - has fallen to around 1.9 from 2.25 in 1990. That is nearly as low as western European and US rates, and less than half that of India.

areas, where three quarters of people live, and where the average number of children per family is still 2.6.

"The countryside is still a problem - they work with their hands and believe that they need more hands," officials say. The policy also appears to have encouraged a disproportionate number of baby boys, traditionally preferred to girls in China. Ultra-sound machines - which can detect the sex of the foetus - are now widespread, although abortion on those grounds is officially discouraged.

According to the family planning ministry, in Zhejiang province in the Yangtze Delta, the proportion of boys to girls has reached 118 to 100 compared to the normal 104.

Demographers stress that given these tensions, and the scale of social change now under way in China, particularly growing affluence and migration to the cities, the future is highly uncertain.

In Mr Haub's words: "Who knows what China will look like in 30 years time? The range of prospects for its population is enormous."

Bronwen Maddox

Over 130m farm workers now "surplus to requirements"

## Migrant labour moves to cities

**H**UDDLED in tightly packed groups around the railway stations of China's urban centres, peasant workers from the countryside wait listlessly for offers of work from city dwellers.

Government officials say that about 30m of China's 557m population of working age are employed outside their home provinces, and that about half are skilled manual workers, often in construction. But the World Bank estimates that this floating population may number as many as 120m.

In Guangzhou city alone, at the heart of the flourishing Guangdong province, officials estimate that about half a million of the city's 3m workforce are migrants - "It is hard to get good statistics for illegal migrants into our city," says Mr Fu Yin, division chief in the Guangzhou Planning Commission. "But it is unavoidable, and the figure will increase." He expects the number of migrants without work permits have risen to 900,000 by the end of the decade.

Traditionally, the Chinese state has assigned jobs for life to its citizens, with housing, health and welfare benefits attached. Citizens received the benefit of this guaranteed living standard or "iron rice bowl." Meanwhile, the Communist Party was able to keep a close eye on the behaviour of its subjects.

As economic development has accelerated, government officials have become aware that this highly immobile and inflexible labour system is hampering reforms.

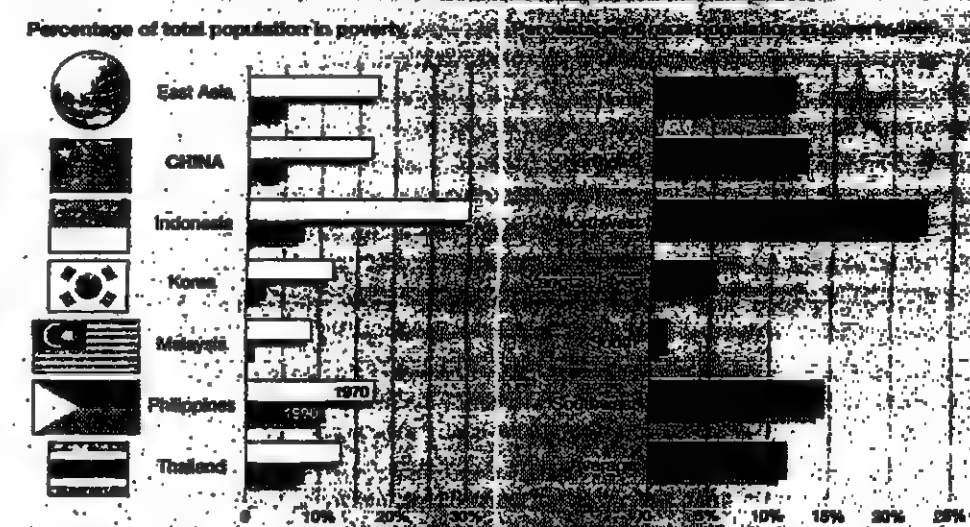
In 1986, a labour contract system was introduced for all newly recruited workers in the state sector, although by the end of last year only 18m (21 per cent) of total state enterprise employees had such contracts. The government is currently planning further labour market reforms, requiring all state employees to sign contracts. Unprofitable state enterprises were prevented over the summer from paying wage bonuses to their workers.

Meanwhile, the state plans to remove from state enterprises the responsibility for provision of welfare, pensions and housing. Experiments are under way to allow housing agencies to buy housing stock from state enterprises, and then gradually to increase rents over time. The government has established an unemployment insurance system and is investigating a national retirement fund.

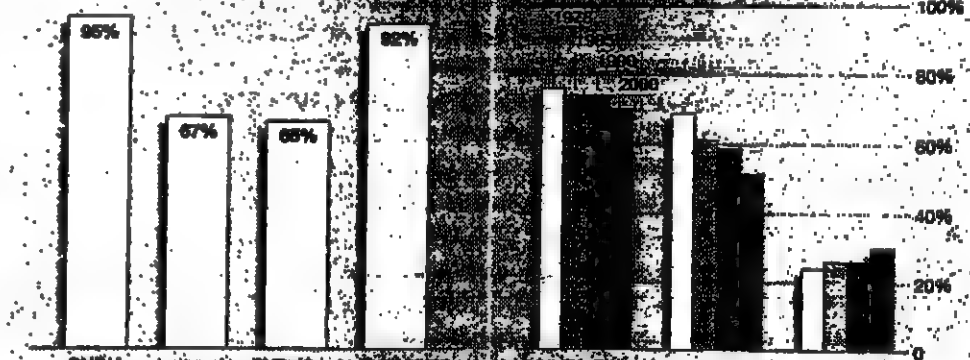
"Our ultimate objective is to create an active labour market so that enterprises can freely choose their workers, and in which labour is more mobile," says Mr Zhu, vice labour minister. Yet the government remains cautious about the implications for "social stability" of asking enterprises to shed surplus workers, let alone forcing unprofitable enterprises to go bankrupt. Official unemployment in urban areas is below 3 per cent, but government officials estimate that about 10 per cent of workers in state enterprises are under-employed, while a third of enterprises are unprofitable.

"We cannot allow many enterprises to go bankrupt

Poverty and employment: 95 per cent of China's 100m poor people live in countryside areas



Percentage of poor who live in rural areas, 1990



Source: World Bank



A floating population in search of the good life: above, more migrant workers arrive in Beijing from rural areas - 95 per cent of China's 100m poor people live in countryside areas. Picture by Edward Bails

because our society does not have the capacity to absorb these surplus workers," says Mr Wei Liqun, Secretary General of the State Planning Commission. "With unemployment at 2 per cent, our society is stable. But if unemployment rises above 5 per cent we will have social unrest."

As the importance of state enterprises has dwindled, so the grip of the state on the activities of its population has also been weakened. Less than half of China's non-agricultural workforce now works in state enterprises, with a growing number working in foreign-funded enterprises often at five times the wage of their state compatriots. Meanwhile, the proportion of workers employed in Township and Village Enterprises (TVEs) rose from 7 per cent in 1980 to 16 per cent in 1990. These workers account for 40 per cent of non-agricultural employment.

One reason for the growth of this floating population is the accumulating surplus of farm

labour owing to population growth and technological change. The labour ministry estimates that 130m of the total 333m agricultural labour force is now surplus to requirements, and estimates that this figure could reach 200m by the end of the decade. The World Bank estimates that, while urban employment should grow by 2.8 per cent a year, agricultural employment will stay constant.

Another reason is the growing inequality of income between the richer coastal provinces and poorer rural provinces. According to World Bank figures, the percentage of the population which now lives in poverty has fallen dramatically from 33 per cent in 1970 to 9 per cent in 1990. But poverty is highly concentrated in the countryside: 95 per cent of China's 100m poor live in rural areas.

In many rural areas, the growth of rural industry has played an increasingly important role in alleviating poverty,

a policy that the government now plans to encourage. But there is also substantial regional variation in poverty incidence, as the chart shows, while rural industry is much more prevalent in the richer regions. More than a quarter of the rural population in the southern provinces is employed in rural industry, compared to a mere 3.9 per cent in north-western Gansu province where a third of the rural population is poor.

The government plans to encourage the growth of new urban areas in the poorer provinces by persuading enterprises and foreign investors to move to less developed areas. "Our policy is that farmers can leave the land, but not the countryside," says Mr Zhu of the labour ministry. But, as the floating population already shows, the development of China's labour market, like its economy, is not always under the government's control.

Edward Bails





Smog in Beijing: blast furnace towers and smoke stacks rise through the perpetual haze over Beijing's Capital Iron and Steel complex. For months, the giant factory was pushed into overdrive to keep pace with China's latest economic thrust. See industrial report, page eight.

## POLLUTION

# It will get worse

BICYCLES have been banned from the Bund, the highway along Shanghai's colonial waterfront, so that cars can move more easily. The image of hordes of Chinese making their way to work on bicycles is giving way to that of day-long traffic jams, which pump out a choking smog into the city air.

That is just one symbol of the pressures which China's economic development is putting on the environment. In the past, environmental concerns have been low among China's priorities. But in the past year, Chinese officials and the World Bank have both warned that pollution needs to be curbed urgently because it threatens future economic growth.

Shortages of clean water have already cut agricultural yields on millions of hectares of cropland and are pushing up manufacturing costs. Environmental diseases are a growing burden on public health programmes; lung disease, partly blamed on air pollution, was the leading cause of death in China in recent years at 28 per cent of all deaths.

Government statistics, though incomplete, indicate that Chinese cities are among the dirtiest in the world. More than two-thirds of household and industrial waste water is dumped untreated into rivers, lakes and the sea. In Beijing, where only 2 per cent of household waste is treated, the eastern suburbs reek of sewage, while Guangzhou's canals bubble with methane from rotting rubbish.

In northern industrial cities, levels of particles in the air, which cause breathing problems, are up to nine times higher than World Health Organisation standards, the World Bank reported last year. In rural areas, only one in seven people has clean drinking water.

These problems, while common to industrialising countries, have been exacerbated by the route that China has taken to development. The sharp rise in its population to the present total of 1.2bn followed Mao's endorsement of large families between 1950 and 1965. The economy is only gradually turning away from highly-polluting heavy industry, still nearly half of industrial output.

Moreover, the low energy prices set by the state have left Chinese industry inefficient. Consumption of energy per unit of output is high even by developing country standards,

according to the World Bank. Coal, the single biggest culprit behind China's air pollution, still supplies three-quarters of the country's energy.

The Chinese government has made some attempts to curb pollution during the past 10 years. It is hard to think of another developing country with a comparable array of environmental regulations, permits, and levies at both national and local level.

Professor Ye Rugu, of China's National Environmental Protection Agency, claims that these schemes have been at least partly effective: pollution per unit of output has not increased since 1970, in a

Government statistics indicate that Chinese cities are among the dirtiest in the world. In Beijing, the eastern suburbs reek of sewage.

period when GNP has grown by some 180 per cent, he says. But the schemes attract scepticism among some Chinese intellectuals and western observers. They point out that the central government's budget for fighting pollution is tiny: only ¥11.8bn last year. They are doubtful that without more funds, the government's current campaign to shame polluters into cleaning up will be effective. (In the summer it published a list of China's 3,000 worst polluting factories, and last month launched a nationwide night television programme to celebrate triumphs of pollution control.)

Perhaps the greatest problem is that regional and district governments often fail to enforce Beijing's policy. In the view of one western diplomat: "I think they [the central government] are sincere. The problem in China has always been the disconnection between the provinces and the centre." For a start, fines are generally too low to be effective in deterring pollution or encouraging investment in cleaner technology. In Tianjin, a fast-growing industrial city 100km south east of Beijing, the district government can impose fines of only ¥50,000 on factories, and the municipal government fines only up to ¥100,000. Mr Liu Jin Sheng, senior engineer with the city's environment protection bureau, acknowledges that "the fines are low and need revision". But local officials cannot raise the fines without authorisation

from central government.

However, tougher penalties might jeopardise economic growth and jobs. Faced with that choice, both central and provincial officials tend to choose growth and jobs. That preference is reflected in the lack of environmental controls exerted over the mushrooming township and village enterprises.

Often using outdated, inefficient technology, their sprawling sheds and belching chimneys are part of the new scenery of the Chinese countryside. Yet they underpin much of the new provincial prosperity, and also have a central role in state plans for soaking up surplus rural labour and encouraging peasants from migrating to the towns.

Given the shortcomings of China's present system of pollution control, the immediate prospect is that much of China will get dirtier as the economy grows. Informal government estimates suggest that China will burn 1.4bn tonnes of coal by 2000, a 40 per cent rise on present levels.

However, structural changes under way in the economy could bring about longer-term environmental improvements. If the attempts to free resource prices are carried through, particularly in the case of coal, industrial efficiency may rise. Development of hydroelectric and nuclear power will also help, although it brings other problems: China's "Three Gorges" project to dam the upper Yangtze river has attracted international criticism for the ecological and social disruption it will cause. Decentralisation may also give the provinces more responsibility for pollution fines and permits.

Chinese officials acknowledge that foreign funding and technology increase the chances of this transformation. In securing funds, China may be able to capitalise on international concern about global warming. It made clear at last year's Rio Earth Summit that if developed countries wanted it to curb emissions from coal burning, they would have to provide the cash. But until these structural changes take place, it is hard to see China becoming cleaner. As Professor Ye puts it: "We must simply try to slow down the rate of increase of pollution as China develops - but we cannot stop the development."

Bronwen Maddox

## HOUSING REFORM

# Homeowner Mr Li feels very secure

HAVING crammed three generations into his recently purchased Yantai apartment, Li Xitian has combined the traditional Chinese family arrangement with the modern Communist party dream of owning your own home.

A party member at a Yantai storage company, Mr Li has set an example for his fellow workers, most of whom are yet to be convinced to swap a minimal monthly rent for housing loan repayments and the uncertain legal protection offered by the Yantai municipal government.

"I feel very secure. I really feel that I own the apartment and will be able to pass it on to my son and grandson," said Mr Li, who would not have bought it had he only been entitled to "occupation rights", as is the case under other experiments in Chinese housing reform.

In the past, party members have been expected to lead the way in political purity campaigns. Now Mr Li is a model homebuyer, having traded in a rent of ¥200 a month for an apartment priced at ¥23,000. He had saved half the amount and borrowed the remainder from friends, who will expect him to become a lender if they, too, decide to invest in a home and hence in China's economic reforms.

Housing reform began in Yantai, in east China, six years



Party member Li Xitian regarded as a model homebuyer

ago. However, workers and their work units, which own most of the country's housing space, are still reluctant to participate in a programme linked to the government's drive to strip away the many welfare functions of Chinese companies.

After the early fanfare, Yantai stalled. Sales were frozen after 1989, partly because of an unfinished ideological debate over ownership, but primarily because work units did not want to sell apartments at a loss. Meanwhile, the local government was reluctant to push rents to a level that would increase the incentive for tenants to buy at market value.

The government has restarted the experiment this

year, convincing 11 work units, including Mr Li's Yantai Supply and Storage Transport Company, to participate. Yantai has ruled that all apartments built before December 1990 are "old" and will be sold at a discount, while those finished after that date are "new" and the selling price must reflect the cost of construction. Yantai's experiences will be studied by other local governments, which have been delegated the responsibility for setting a timetable for reforms over which there is little dispute back in Beijing. It is agreed among economic planners that housing should be exposed to the market, but it is also recognised that sudden change could produce the

"social instability" feared by the Communist Party.

The central government was responsible for 90 per cent of housing investment before 1978, but its share was cut to 16 per cent by 1990, and has fallen further. By reducing its funding, Beijing has increased the pressure on local governments to develop housing policies or face a heavy burden in direct and indirect subsidies.

In Shenyang, an industrial centre in the north, where 38 per cent of state-owned companies are losing money, reforms are to begin early next year. But Mr Ai Tingming, the city's vice-mayor, said: "Solving the housing problem will not be easy."

OFFICIALS in the northern Beijing district of Haidian would agree. They have suspended a scheme to sell apartments to tenants, many of them academics from the universities and research institutes dotted around the area. Academics complained that planned rent increases were excessive, and demanded special treatment as they were unable to take a second job to supplement their income and could not raise the money to buy a home.

Yantai, which increased rents in 1987 in the first phase of reform, plans to lift charges again to cover the costs of con-

struction and then to reflect the market value of rents. The first change is due to come "in the years before 2000" and the second "in the years after 2000", according to a cautious Mr Wang Qingyuan, president of the city's real estate management bureau.

Private buyers outside the work unit system remain a small minority. Mr Wang estimates that only 3 per cent of "commodity houses" built by government authorities are sold to individuals, generally get-rich-quick business people or families backed by relatives overseas. The remaining apartments are bought by work units or state institutions.

Even Yantai officials, who are at least trying to reform housing, have a limited view of the market's boundaries. For example, if Mr Li or another apartment buyer wants to cash in the asset value and return to the subsidised rental market, he must wait at least five years and will never again be allowed to buy an apartment through the work unit.

And Mr Wang explained, the capital gains must be shared with the work unit and the government, though the precise formula of taxes and charges for the unprecedented event of a quick resale has yet to be finalised.

Robert Thomson

## Financial Services

Significant reforms are continuing in China's banking and finance sectors. Here, and on the next page, Simon Holberton and Edward Balls highlight recent developments

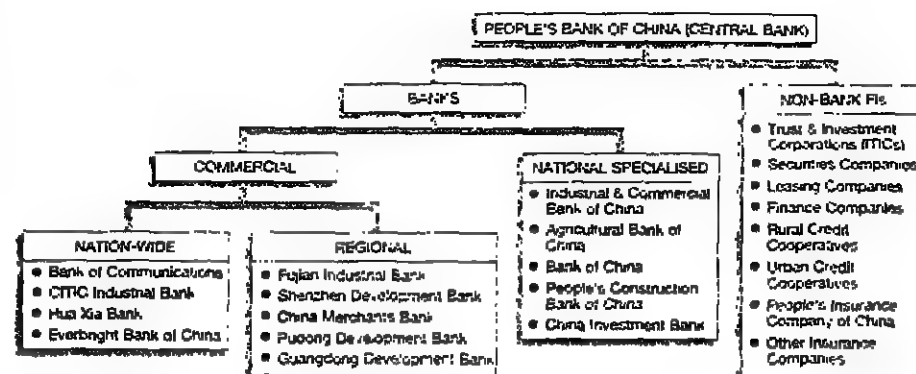


Rush hour at Shanghai's Securities Exchange

Edward Balls looks at progress on banking reforms

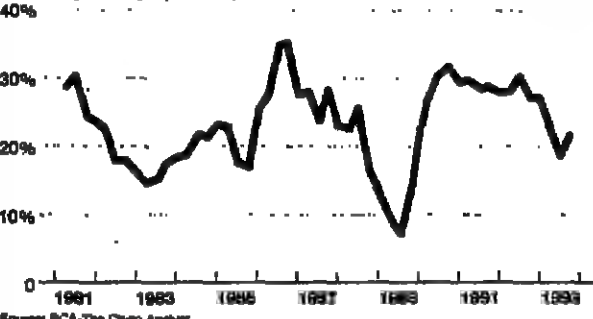
# Still a long way to go

China's financial institutions (Fis)



Total bank deposit growth

Percentage change, year-on-year



has become more sophisticated, laws in the system have become more obvious. Problems exist in the following areas:

● Non-commercial lending. The state banks remain obliged to lend to state enterprises, regardless of commercial criteria, so the government has been obliged to keep tight control on competition in the banking sector and on the banks' interest rates policy. Up to 40 per cent of the

banks' loans to state enterprises are believed to be non-performing, although the Bank of China prefers to describe them as "overdue".

This lack of competition effectively prevents the central bank from using indirect instruments of monetary policy such as changes in reserve requirements to control credit. ● Under-regulation. Another result of the lack of permitted competition for deposits by the banks, combined with lax regu-

lation by the PBC, has been a mushrooming of illegal lending to non-bank financial institutions who then on-lend at much higher interest rates.

One western banker estimates that, as a result of the crisis in the real estate sector, as much as 50 per cent of this bank to non-bank lending may now be irrecoverable.

Much of this lending occurs outside the published credit plan, and is mysteriously recorded in the government's monetary survey as "other items, net". Last year, net domestic assets grew by 32.7 per cent - 10 percentage points faster than allowed for in the credit plan. Lax regulation has led to a series of financial scandals and frauds involving non-bank institutions.

In March of this year, the PBC issued a circular which tightened access to the inter-bank market to keep non-banks out, prohibited real estate lending, and shortened maturities on interbank lending, although the decree was not enforced until July when Mr Zhu took over.

Profile: Shanghai International Securities Company

# Seeker of excellence

MODERN China is the land of the slogan, writes Simon Holberton.

Deng Xiaoping, China's senior leader, is famous for his "seek truth from facts". The Shanghai International Securities Company (SISCO) hopes to be famous for putting into practice management guru Tom Peters' slogan "in search of excellence".

SISCO is one of the largest securities companies in China and dominates the market in Shanghai.

Owned by a clutch of pension funds and industrial companies, it produces about half of all the new issues coming to the Shanghai market and is responsible, it claims, for more than 10 per cent of the market's daily turnover.

The company has also expanded into Hong Kong where it, and its mainland partners, control two listed companies.

Says Mr Xu Qing Xiong, the company's chairman: "SISCO is two years older than the stock exchange. At first we were dealers in government securities but with the listing of shares our business shifted to the trading of stocks. As the Shanghai exchange has expanded our company has developed very quickly."

Indeed it has. The company's fifth birthday, in May this year, was a time for celebration. In the 1992 calendar year, SISCO's balance sheet - according to mainland accounting standards - had more than quadrupled to ¥2.5bn from ¥600m at the end of the previous year. Profits before tax were ¥73.6m, compared with ¥12.8m.

This growth has funded SISCO's expansion throughout China and Hong Kong. The company now employs 1,000 and it has 17 branches in Shanghai, 20 branches in other cities across China and further

18 agents. It is waiting for approval to set up another 18 branches.

Hong Kong has also become an important base of the company. Mr Xu spent five years in the colony and knows it well. SISCO teamed up with local tycoon Mr Li Ka-shing to acquire Public International (subsequently renamed First Shanghai) earlier this year.

It has also bought control of Ong Holdings which it has renamed Shanghai Hong Kong International Securities and will concentrate on securities dealing. Mr Xu says it is important to develop SISCO's business in Hong Kong as well as Shanghai.

In China's bifurcated securities market - where mainland investors can only trade A shares and foreign investors only trade B shares - a presence in Hong Kong enables SISCO to participate in both markets, he says.

## NANJING

YA DONG INTERNATIONAL CORPORATION LIMITED

Announcing one of the largest land development projects in China to date, actively supported by the governments of the City of Nanjing and Jiangsu Province, and presenting development and project financing opportunities to international investors.

- Eighteen square kilometres of land (4,000 acres) in the northeast section of the city to be developed for commercial, high technology, light industrial, residential, hotel, retail, cultural and recreational uses
- Flanking the Yangtze River, close to China's largest inland deep-water port, rail and road

- links and planned international airport.
- One of China's most attractive industrial hubs, second in automotive and third in electronics manufacturing.
- Home to 45 universities and 300 R&D facilities, producing a highly skilled workforce.

A joint venture between Atlantic Gulf Asia Holdings, a subsidiary of Atlantic Gulf Communities Corporation (NASDAQ: AGULF), a leading US based community development and management company, and Nanjing Nantian Agricultural and Grazing Farm, a Chinese state-owned enterprise

For further information contact: Nanjing Ya Dong International Corporation Limited c/o Atlantic Gulf Communities, 2601 S. Bayshore Drive, Miami, FL 33133-5461, USA Tel: (1) 305-859-9300, ext 4125 • Fax: (1) 305-879-4387

• Business License No. 01604 •



## CHINA 12

## SECURITIES MARKET

## Regulators battle to catch up

IF THERE was ever any doubt that China is a nation of traders and gamblers, then the enthusiasm for company shares which has developed over the past three years has settled it decisively. The stock market is the point at which the national craving to get rich quickly and the government's desire to see a greater role for market forces intersect.

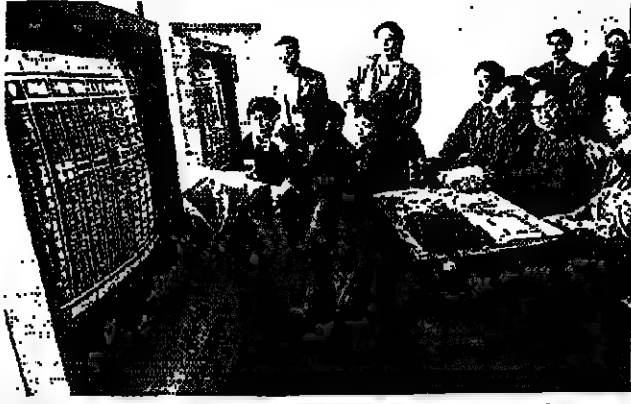
The frenzied buying of shares a year ago may have subsided, but the country is in thrall to stock markets. Kerbside dealers in unofficial shares and bonds have grown like fungi on the street corners of many Chinese cities, especially those inland.

This enthusiasm for securities has, however, not come without a measure of downside risk. Earlier this year one Beijing company, which had illegally issued Ynbn in loan securities, failed, leaving disgruntled investors with a pile of worthless bonds.

In Shenzhen last August, more than 1m people rioted when an inadequate system for issuing shares in soon-to-be-listed companies combined with official corruption, to deprive investors of a fair chance to participate in the new offerings.

Although there is little short of exhortation - that the authorities can do to control kerb markets, they have moved decisively to damp the frenzy surrounding new issues.

Officials - though not their families - have been banned from participating in the stock market; a lot of effort has been put into telling retail investors that shares can go down in value as well as up, and the rules for new issues have been changed to make participation



A nation of traders and gamblers: 'High Rollers' at the Shanghai Securities Exchange

Picture: Cathryn Thomson

In them less profitable.

At the end of September, there were 46 companies listed on the Shenzhen Stock Exchange and 80 on the Shanghai Stock Exchange. In Shanghai, up to five companies are being added to the official every week, and the authorities expect to have 100 companies listed by the end of 1993.

With the growth in the number of stocks traded has come an explosion in the number of securities companies: 205 in Shenzhen, including 10 foreigners, and 448 in Shanghai, including 26 foreign brokers. On both exchanges, foreign brokers are allowed to trade only B shares, of which there are 13 in Shanghai and 20 in Shenzhen.

In total, B share flotations have raised \$US1bn since 1991. The amount of capital raised through A share issues is harder to determine: neither the Shenzhen or Shanghai stock exchanges collect figures on capital raisings, preferring instead to talk about market capitalisation. However, according to one Hong Kong brokerage A share issues have

raise around Ynbn since December 1990.

China's adoption of computerised stock trading - where orders are matched by computer and trading is paperless - has enabled securities companies to offer real time stock trading on either the Shanghai or Shenzhen exchanges virtually anywhere in China. In Shenzhen itself an investor can dial a computer and transact an order over the telephone.

It is hardly surprising that such rapid growth has overtaken the ability of the regulators to police the market. Says Mr Xu Qing Xiong, chairman, Shanghai International Securities Co: "Many listed companies are not following what they said they would when they issued their prospectuses."

The two stock exchanges and the China Securities Regulatory Commission (CSRC) are acutely aware of this problem - which has been the source of much criticism by foreign brokers - and its associated problems of the timely reporting of

market sensitive information and the publication of accounts based on western accounting standards. According to Mr Cao Xi-qing, general counsel at the CSRC in Beijing, the CSRC has set up a working party to study how best to enforce compliance with the regulations. "We are fully aware of the complaints; the government does have the intention to force companies to publish more information."

Part of the regulatory problem stems from a division of responsibilities between the People's Bank, China's central bank, and the CSRC.

The People's Bank, which licenses securities dealers, has opposed the rapid development of the securities industry, mistakenly seeing it as a threat to the banks. The compromise which created the CSRC late last year left the regulator only with the power to supervise securities companies.

This has meant that the CSRC - which is dedicated to the rapid development of a western-style market in China - has had to be ingenious in its attempt to improve the quality of dealers. It has done this through its power to approve the underwriting of new issues. Securities companies have found that to underwrite securities the CSRC applies a standard "fit and proper" set of criteria to them, or licensing by another name.

The difficulties the division of labour between the regulator and the People's Bank may be overcome when a new securities law is published next year. Modelled on the US Securities Exchange Commission, this will vest much wider powers in the CSRC.

Simon Holberton

## CHINA'S FIRST TAKEOVER BID

## Suddenly last summer

Just when it seemed that China's first takeover was at least a decade away, a Shenzhen conglomerate made a surprise move, reports Simon Holberton

WHEN China's stock market regulators were writing the rule book earlier this year the legal department of the State Council - China's cabinet - questioned why rules were needed governing takeovers.

As Mr Gao Xiqing, a director of the China Securities Regulatory Commission (CSRC), China's corporate watchdog, remembers it, one official said "it will take 10 to 20 years before we have a takeover in China".

Wrong. The ink had barely dried when Bao'an, a fast growing conglomerate listed on the Shenzhen stock exchange, was buying stock in Yanzhong, a Shanghai-listed manufacturer with large property holdings. Bao'an's tilt at Yanzhong

this autumn sparked controversy up and down the south China coast about the efficacy of company takeovers and the quality of the regulations governing the stock market.

Local loyalties were also fully engaged. The superior-minded Shanghaians were horrified by what the parvenu from the south was up to. In Shenzhen, China's first and most successful special economic zone, Mr Zeng Hanzhong, chairman of Bao'an, was elevated to the status of a local hero.

Like it or not, as Mr Xu Qing Xiong, chairman, Shanghai International Securities Co., noted, takeovers have come to China. "This sort of acquisition is inevitable; you can do nothing to prevent

them from happening."

Late last month, however, the CSRC found that Bao'an had violated the law governing the acquisition of substantial shareholdings. Bao'an's sin was to move from 10 per cent of Yanzhong to nearly 20 per cent of the company without making the required statutory declarations.

The CSRC fined Bao'an Ynbn and it was required to pass on to Yanzhong some of the profits (about Yn500,000) it made from the illegal trade in Yanzhong's shares. Bao'an was banned from buying any further stock in Yanzhong until November 4.

The CSRC's ruling has cleared up what some professionals thought was a flaw in the rules concerning

the timing of declarations and the definition of control parties. It has also got China's securities industry talking about the value of takeovers.

Mr Gao, although admitting that China's regulatory environment is not "pro-takeover", is in no doubt about their benefit. "A lot of listed companies still behave in the same way as they did before corporatisation," he says. "The threat of takeover shows them that control now rests with shareholders, not government departments."

Mr Liu Bo, executive vice-president at the Shanghai Securities Exchange, agrees. "Takeovers are good for management change and for the management of resources and for the economy in the long run."

## Profile: China International Trust and Investment Corporation (Citic)

## Headlong dash for growth

MR HUANG JICHEN, vice-president, China International Trust and Investment Corporation (Citic) is in an expansive mood - "we expect total assets to be Yn60bn by the end of 1995 and to reach Yn100bn by the year 2000," he says.

Sizes counts in China. Reflecting the central planner's concern with "output", rather than profitability or the efficient use of capital, Citic executives still prefer to talk about growth in assets, rather than profits.

The company has increased in size greatly since its founding 14 years ago with Mr Rong Yiren - the son of one of China's leading business families of the pre-1949 era - at the helm. At the end of 1992 - the latest year for which financial data is available - Citic's balance sheet had swelled to Yn50.7bn, almost wholly on the basis of borrowings.

If the company's first 14 years of operation is any guide then Citic has a good chance of fulfilling its headlong dash for assets growth. Profits, however, are a different matter. At the end of last year the company made a profit of Yn380m, giving it a return on all those assets of just 0.74 per cent - 1 per cent on overseas assets and 0.4 per cent on domestic assets.

Losses during the 1990s, especially on US investments in forestry and steel, eroded a grant of Yn5bn made by the Chinese government at Citic's incorporation in 1978. By the end of 1992 the company's total equity (the sum of paid up capital, reserves and retained earnings) was Yn4m greater than the original Yn5bn capital injection.

Although Citic appears to the outside world as a western-style company it is really a development bank. Its main role is to bring western technology and business methods to bear on the pressing need to modernise the Chinese economy. Hence the dominant role played by its overseas operations.

According to Mr Huang, Citic's foreign operations earn two-thirds of the company's profits and account for half of Citic's assets. Citic is China's largest overseas investor, owning 18 per cent of the country's total investments abroad.

Citic has investments in aluminium in Australia, forestry and steel in the US, pulp and paper in Canada, and through Citic Pacific, its listed Hong Kong company, telecommunications, aviation and trading. Not all its investments abroad have gone well but, as Mr Huang, explains it, from adversity valuable lessons in business management have been learned.

"In September, when I was in the US, I met a banker who has had a relationship with our forestry business (Citicfor) since the beginning," he says. "He had seen the whole process from the start: from when all our equity had been lost to when the company made a profit. With effort Citicfor has become profitable, recouped its losses and is now offering up profits to Citic."

Mr Huang said that difficult as these experiences abroad have been they were good for managers. He likens it to a school, adding, "to train people without practice is just empty words." He says Citic is paying closer attention to the develop-

## CITIC

CITIC's total assets in 1992 were Yn50.7bn. Profits were Yn380m. Divisions in the group include:

- Iron, steel and non-ferrous metals: 12 companies.
- Building materials: 17 companies.
- Energy: three companies.
- Chemicals, pharmaceuticals: eight companies.
- Textiles and light industry: 16 companies.
- Machinery and electronics: 12 companies.
- Real estate and construction: 17 companies.
- Trade and commerce: 12 companies.
- Finance: 11 companies.
- Tourism: 16 companies.
- Transportation: one company.

Overseas interests:

- Australia - aluminium.
- US - steel, forestry.
- Canada - pulp, paper.
- Hong Kong - telecoms, satellites, trading, aviation.

Sources: Citic company reports.

ment of its staff, slipping into language that would warm the heart of any western "human resources" manager - "we offer a lot of opportunity to the people here. We are paying a lot of attention to training and offering staff opportunities to play a full role, especially in overseas business."

Citic is also discovering that management and financing techniques used in the west for building large infrastructure projects, such as power sta-

tions, are now ripe for use in China. The company is discussing with GEC of Britain and National Power, the UK privatised electricity generation monopoly, the construction of a 4 times 600MW power station in Jiaxia City on Hangzhou Bay, based on the "build, operate and transfer" method so common in Hong Kong.

"The main reason for applying this model is because of China's stage of development," says Mr Huang. "We couldn't do it years ago, the fact that we can talk of doing it now shows that reforms and market development have been realised at a higher level. If we look further at the model it will only work if the price of electricity fluctuates according to the market."

Although the early years of the 1990s has witnessed an explosive growth in opportunities for foreign investors in Chinese companies, it is unlikely that Citic itself will ever be listed on a stock exchange. Citic reports directly to the Chinese government's State Council, or Cabinet. It is closely linked with both government and the Communist party at the highest level.

Foreigners can gain an exposure to some of Citic's mainland assets through Citic Pacific in Hong Kong. Next year they will also be able to buy equity in Yizhang Chemical Fibre, one of China's biggest synthetic fibre makers in which Citic has a 30 per cent share. This is one of the nine big Chinese state companies which will be listed in Hong Kong during the first half of next year.

Simon Holberton

## Infrastructure

Despite big projects now underway, China faces a daunting task to supply key services for which foreign investment is crucial. Below, and on the next page, FT writers look at the latest developments

## Urgent need to upgrade road, road and port facilities

## A feeble springboard

China's inadequate infrastructure has emerged as a serious constraint on its future non-inflationary development, reports SIMON HOLBERTON

CHINA has embarked on the world's largest expansion in railways, roads, ports, electric power capacity and telecommunications. By the end of the century, however, the nation will still be unable to meet demand for these key services, thereby capping the China's ability both to grow rapidly and maintain a semblance of price stability.

Financing the country's upgrading of infrastructure resources has also emerged as a pressing problem for the authorities. Central government revenues - the mainstay of investment a decade ago - have been eroded by the growing fiscal power of the provinces.

Beijing's loss of financial control - which may be reversed once planned tax reforms and revenue sharing agreements are in place - has also hampered coordination of infrastructure development. Local interests have sometimes taken precedence over national requirements.

In addition to this, the inefficiency of China's banking system in marshalling domestic savings for investment has also retarded development. Again, this may be addressed by planned reforms of the banking system.

Foreign investment has become an important source of finance for the development of infrastructure. Such are the needs for increased capacity that China has been forced to allow direct foreign ownership of roads, local railways and power stations.

According to one estimate, compiled by Crosby Securities, a Hong Kong stock brokerage, the share of foreign investment in China's expenditure on infrastructure development rose to 13 per cent in 1990 from 2 per cent in 1982. This trend is expected to continue.

What follows is a selective look at the current infrastructure bottlenecks besetting the Chinese economy, the government's plans for future development and the difficulties it is encountering in realising its plans.

● **RAILWAYS.** About 70 per cent of China's freight is carried on its 53,000km railway system. In the 8th five-year plan (1991-95), the Ministry of Railways hopes to increase the network by 16,300km, or 30 per cent, and rolling stock by 20 per cent.

According to the World Bank China's railway network is sufficient to meet only 60 per cent of industry's demand for rail services. Mr Tu Youxi, vice-minister of railways, says network can satisfy 70 per cent of

demand, but that "in some areas, especially the main line to south China, bottlenecks mean that we can meet only 40 to 50 per cent of demand."

The ministry plans to upgrade the Beijing to Kowloon line to a double track railway by the end of 1995. It recently mobilised a workforce of 200,000 to accelerate the building of the line, which has encountered difficulties on the Guangdong-Guangxi border in the south where 300km of line has to pass through mountains and cross rivers.

Inflation has affected the ministry's ability to meet the 8th five-year plan for rail construction. Its original Yn100bn budget for capital construction is up to 40 per cent less than it now needs. This has prompted calls for a review of its very low tariff structure.

It costs just 5.3 fen (about six US cents) to transport one tonne of freight one kilometre. Mr Tu estimates that a one fen increase in the tariff would earn the ministry an extra Yn1bn a year in revenue.

But the coal industry is the main impediment to increasing tariffs. Half of the freight shipped by rail is coal for the electric power industry. Coal industry losses grew to Yn1.9bn in 1990 (from Yn1.25bn in 1985) and it is



The shape of things to come: poster artists work on a giant mural of what the tower blocks of Pudong, Shanghai, will look like when complete - but for now it is probably the biggest building site in the world

## Infrastructure: how China compares

Country/territory	Power consumption Kw hr per head	Phone lines per 100 people	Kilometres of roads per sq km
Hong Kong	4,089	38.0	1.36
Singapore	4,822	35.0	4.50
Malaysia	1,141	7.3	0.07
Thailand	711	1.8	0.08
Indonesia	211	0.5	0.03
Philippines	418	1.0	0.63
CHINA	550	1.1	0.11

Source: Crosby Securities

Shenzhen, city authorities have brought in Hong Kong investors to upgrade container port facilities, with these investors owning between 50 per cent and 80 per cent of these facilities.

● **ROADS.** China's road network is one of the most underdeveloped in the developing world. Density of highways is a fifth of that in India.

At the end of 1992 China had 1m kilometres of roads, only 5,000 of which were class 1 or class 2 highways - properly paved and consisting of more than one lane each way. China's 30,000km national truck road network is operating in excess of its design capacity. A further 250,000km of roads have reached or exceed 60 per cent of their design life. The ministry of communications estimates that upkeep for these roads alone is costing Ynbn a year.

The ministry has ambitious plans for the future development of China's road network. Over the next 30 years it wants to see 30,000km of highways linking China's main urban centres. It is unable to estimate the cost of this roads programme, due to price variations throughout the country for land and materials acquisition.

Providing the needed infrastructure for shipping goods throughout China is a daunting enough task. Addressing the social infrastructure needs of the cities is just as challenging. According to Mr Wang Guangtao, a senior official at the ministry of construction, China's cities produce 85m tonnes of sewage and waste water a day, of which only 17 per cent can be treated. The hope is that by 2000, 35 per cent can be treated - "this is a big task for us," he adds.

## COAL AND ENERGY SHORTAGES

## An economic bottleneck

People are not complaining too much about the price rises - "not yet anyway," say the blue-collar staff of the coal depot in Beijing's grimy backstreets.

Several years ago the cylindrical bricks of pressed coal dust were three fen each - now they cost five times as much.

The overhaul of the loss-making coal industry, one of the central parts of China's modernisation, is also one of the most publicly sensitive. It implies not just sharp price rises but huge job cuts in China's coal industry - with 7m workers, it is the world's largest.

The use of coal is woven into almost every part of Chinese life. In winter, the cities' hutongs - crowded lanes of huts - pump out black coal smoke from their heating stoves, while most electricity is generated from coal.

In total, it makes up three-quarters of the country's energy consumption.

But the need for reform is inescapable. After years of explosive economic growth, during which energy production failed to keep pace, the

southern and coastal regions now see their growth threatened by coal and power shortages, one of the economy's tightening bottlenecks.

Although annual coal production doubled between 1977 and 1992 to 1.1bn tonnes, it has failed to meet demand. Similarly, electricity generation, which has risen by around 3 per cent a year in the last decade, has been outstripped by GNP, which has risen nearly 9 per cent a year in that period.

According to the State Planning Commission, the energy shortage may be the equivalent of 500m to 600m tonnes of coal by 2000 if the economy grows by around 9 per cent a year.

Part of the problem has been artificially low state prices. Although the range between provinces is wide, the level has frequently been less than a third of world market prices of US\$36 a tonne.

In the past year, the huge China General Coal Corporation, which accounts for a third of the industry's output, has taken the first steps to reform by allowing coal prices on 87 per cent of its output to

float at market prices, compared to 30 per cent in 1992.

The rest of the industry is made up almost entirely of mines run by provincial and local governments, which must sell specified amounts to China General and state enterprises, at set prices.

According to a World Bank report in June, prices for this mandatory production were raised by 27 per cent to Yn71 per tonne.

The government has also, gingerly, begun to tackle over-manning. Since last year, China has laid off or has made plans to lay off 300,000 employees. The government has given it some Yn2bn a year to pass on as compensation.

But even if profitability returns to the industry and production rises, the creaking rail network threatens to choke off supplies.

Guangdong province, in China's booming south, imports some coal from Australia because freight deliveries from the north are so erratic. Hundreds of kilometres away, stockpiles of Chinese coal smoulder while waiting months for freight trains.

The problem is made acute by the regional imbalances between production and consumption while China's main coal deposits are in the north, the main consumption in the east, south and north east.

One of the government's proposed solutions is to build more power plants inland near the mines.

However western diplomats point out that electricity transmission along power cables is currently so inefficient that much electricity is lost on the way.

Given China's coal reserves - estimated by western observers to be some 900bn tonnes - coal will remain the backbone of China's energy supplies for decades.

If the transformation of the industry is successful, Beijing expects annual production to rise by nearly 40 per cent by the end of the century to 1.5bn tonnes.

But between now and then, Beijing must navigate some of the most publicly contentious issues of its programme of reform.

Bronwen Maddox



## TELECOMMUNICATIONS MARKET

## High price of entry

FOREIGN manufacturers are waging an intense battle to win a greater share of China's booming multimillion dollar telecommunications market.

"There is fierce competition, because the stakes are so high," says a western business executive involved in telecommunications. "China could buy more phones than many countries combined."

China has about 17m phone lines and about 1.6 phones for every 100 people. This compares with about 50 phones per 100 in the US. Beijing's goal is to have 100m lines in operation by 2000.

The focal point of the competition is China's public switching sector. The government is expanding and modernising its telephone exchanges by installing "store program computers" (SPCs) to replace the older electro-mechanical equipment to do the switching.

The leading manufacturers in this market are Alcatel, Ericsson, Northern Telecom, Siemens, NEC, Fujitsu and AT&T. However, the price for entry into the market is high. Companies have been told that to manufacture switching equipment, they must also make semiconductor chips in China, according to western businessmen.

"The Chinese want semiconductor lines - it's the basis of everything from modern weapons to computers," a western diplomat says. "It's more important than the internal combustion engine was, 100 years ago. And it's extremely expensive to set up."

Most manufacturers have little choice. To sell their array of other communications equipment, they must be in the switching market, the diplomat adds.

Nearly all of the western telecommunications manufacturers in China have established, or are in the process of establishing, micro-chip production plants.

Siemens has a chip factory in Wuxi near Shanghai. Alcatel has a similar arrangement with its Chinese joint venture partner in Shanghai, and the Japanese multinational NEC produces semiconductors at the state-run Capital Iron & Steel plant in Beijing.

AT&T is also believed to have reached agreement to set up semiconductor operations to support the manufacture of its planned switching joint ventures in Qingdao, a port in north-east China, and Chengdu, the capital of Sichuan. These joint ventures are expected to begin operation in 1995.

Northern Telecom has nearly concluded negotiations to make switching equipment in Shunde in Guangdong province and expects to begin production of switches by the end of this year or early 1994. It will use semiconductors manufactured by two



Taking shape: the new TV tower at Pudong, Shanghai

other joint ventures which the Canadian giant is establishing in Shanghai.

Northern Telecom has also recently won \$15m of contracts to sell switching equipment to the provinces of Henan, Jiangxi, Shaanxi, and Yunnan.

Northern Telecom's sales follows a

period when the State Council initially allowed only three multinational firms to form Sino-foreign joint ventures to manufacture switching equipment. These were Alcatel affiliate, Shanghai Bell, a Beijing-based Siemens joint venture, and an NEC company in Tianjin.

Other multinationals were frozen out, but under pressure from Washington and other companies, industry sources said the Chinese Ministry of Posts and Telecommunications agreed to ease its restrictions on the lucrative switching market.

Of the foreign telecom companies, Alcatel is the market leader in the switching business with about 30 per cent of the market. Siemens has approximately 15 to 20 per cent, NEC a smaller share, with the rest split among other foreign manufacturers, say industry sources.

Alcatel is the most aggressive. Its joint venture with Shanghai Bell has tripled its design capacity to produce more than 2m lines last year - and Alcatel has sold an additional 2m lines direct to local branches of the Ministry of Posts and Telecommunications since the 1980s.

Siemens also plans to dramatically increase its production capacity from

1.5m lines this year to 3m by 1995 at its Beijing operation. Last year, the joint venture produced 370,000 lines.

Meanwhile, Ericsson plans to install 1.8m lines in Guangdong over the next few years.

Apart from switching equipment, demand for the latest technology in optical fibre networks to transport speech or data is also acute, western businessmen say. The government recently had tenders for large long-distance optical fibre networks crisscrossing the country.

"China is developing so fast that it wants to go in at the highest level, rather than spend years with older equipment," says a western businessman. "The Chinese weren't buying optical fibre equipment in 1988 and '89. Now, they are poised to take advantage of the latest technology."

Because of the country's telephone shortage, mobile phones and radio pagers have proliferated wildly in an unregulated atmosphere, often with network frequencies interfering with each other. To impose more order on the market, the government has issued a series of decrees to regulate the use of mobile phones and other data-communication services, the Ministry of Posts and Telecommunications recently issued new licensing regulations.

Foreign manufacturers welcomed the decision, saying it would help stop the production of poor quality and counterfeit pagers.

Lynne Curry

## Successful joint venture profile: Shanghai Bell

## Well worth the risks

"OUR BIGGEST problem is management," says Mr Bert Degraeve, the Belgian who is general manager of Shanghai Bell, one of Shanghai's most successful joint ventures between Chinese and foreign companies. A shortage of skilled managers is also China's biggest problem in attracting investors, he argues.

Set up in 1985, Shanghai Bell Telephone Equipment Manufacturing, epitomises the kind of high-technology investment which China craves. Telephone exchanges and switches from its Shanghai factory, designed to some of the latest overseas standards, are being sold almost daily into the country's over-stretched telecommunications network.

The group was created as a joint venture between the Shanghai Ministry of Post and Telecommunications, which owns 60 per cent; Alcatel Bell, the Belgian telecom group, which holds 32 per cent; and the Belgian government with 8 per cent.

The attractions for the foreign owners are clear. While the Belgian market for exchanges is 300,000 lines a year (a measurement of the exchange's capacity), the Chinese market is already nine times the size. This year, Shanghai Bell expects turnover to be US\$450m, compared to US\$230m last year and \$80m in 1990, even though the price of the products has halved in the past eight years.

However, the price of entry to the Chinese market was the government's requirement that foreign technology be



Lu De Chun: aiming for high microchip standards

transferred to the joint venture. Alcatel Bell introduced not only the exchange and switch manufacturing capability, but also a subsidiary of Shanghai Bell, called Shanghai Bell, to make wafers for silicon chips.

In Mr Degraeve's view, foreign companies' concerns about losing control of the business after they have transferred technology "are justified." But in the end "you have to take the risk," he says. In Shanghai Bell's case, the requirement was easier to fulfil than it had expected: it discovered a virtually unused wafer fabrication plant already in Shanghai, with plastic covers still on the equipment, and took it over.

The bigger issue, he argues, is how to transfer management standards. Like other high-tech companies, Alcatel Bell was attracted to Shanghai by the large number of technically qualified graduates emerging from its universities. But although the graduates are technically qualified, one of his hardest tasks is to instill a sense of precision and high

standards into his staff.

"You can see the circumstances in which people are living, the crowded rooms, the clutter, the traffic, the noise. Then you expect people to come in this gate and turn around 260 degrees" to produce precisely-engineered products - "that is what we are demanding of them."

His job is made harder because the Cultural Revolution has left a shortage of trained 40 to 50-year-olds - "the result is that company structure is then distorted" by a disproportionate number of young staff, he says.

Despite these problems, Shanghai Bell believes it has a head start and a competitive advantage which will put it ahead of other rivals: US telecom groups now have the eye on the market. The same may not be true, however, of Bell, its subsidiary.

Mr Lu De Chun, Beijing's general manager, acknowledges that Bell's chips are some way below the standards of the best international plants. Only between 60 per cent and 90 per cent of wafers pass the tests at the end of the production line, compared to 90 per cent in the most highly automated Japanese plants. Bell's most complicated chips need to be sent to South Korea and Taiwan for assembly.

At the moment, 85 per cent of Bell's business is with Shanghai Bell; the parent company is keen on owning local suppliers of components because of the difficulty and expense of importing.

Bronwen Maddox

## Anxiety over safety in the skies

## Airlanes congested

THE RAPID expansion of China's aviation industry is straining the country's ability to maintain adequate safety standards, according to Western aviation experts.

The proliferation of airlines, coupled with the purchase of so many aircraft in the world's fastest growing aviation market, has triggered alarm among senior Chinese leaders and Western experts about just how safe the country's skies really are.

"Their idea of aviation is aeroplanes," a western businessman said. "It's almost as an afterthought that the Chinese consider maintenance, the training of pilots, and airports to handle passengers."

Indeed, since the mid-1980s the growth in the passenger and freight markets has soared to 25 per cent a year. Even with a projected slower growth rate of less than 20 per cent annually through the end of the century, western businessmen estimate that Chinese airlines will continue to need 50 planes a year for the next decade.

To meet this demand, foreign aircraft manufacturers are flocking to China. Boeing Corporation and Airbus Industrie have been market leaders. In the spring of this year, Chinese airlines bought 21 Boeing jetliners, making a total of 150 Boeings either leased or sold to the country since 1972, when China placed its first order with the American manufacturer. China has also purchased 12 aircraft from Airbus this year. Prior to that sale, altogether the European consortium has sold 17 aircraft to

Chinese airlines.

Making the skies safer depends on making improvements in several vital areas: air traffic control, radar, ground equipment and pilot shortages. China's air space is controlled by the military and civilian airlines must request use of it. Civilian aircraft are allotted narrow corridors within which to fly and cannot deviate out of them.

With more aircraft flying in the same air space, western diplomats said the likelihood of an accident increases. The air space problem is compounded by China's severe shortage of radar and ground equipment and navigational and landing systems.

"China is using the same amount of radar to cover more aircraft," a western diplomat said. "It is not ready to adequately handle the increase in the number of planes its airlines have acquired. There are even areas in China that have no radar. And if you have no navigational aids, you're in trouble."

Moreover, China lacks a national system of civilian air traffic control. Transferring aircraft from one flight information region to another as is done in western countries simply does not exist. Pilot training also lags behind the West. Modelled on the Soviet method, pilots are given instructions from air traffic control on the ground, and western diplomats said they are not trained to request permission to alter their original route - "If you are flying a plane in China, it goes through clouds and turbulence because

the pilots don't have the training or leeway to deviate from the course... so you end up with a rather bumpy ride."

The difficulties and dangers are compounded by an acute shortage of pilots. The country's only training school, run by the Civil Aviation Administration of China (CAAC) and located in Chengdu, Sichuan, turns out 80 pilots annually. Western businessmen estimate the country currently needs a total of at least 600 new pilots. Because of the pilot shortage, pilots fly longer hours than they should.

The drive to be profitable has also led to overloading aircraft with passengers and cargo, and to aircraft flying when they should be grounded for inspections and maintenance.

Since July last year, China has had five reported accidents, which killed 31 people. Even within the first two weeks of a 100-day safety campaign for the Chinese air force, two F-7 fighters collided, killing both pilots.

Given all of these safety problems, the Chinese are attempting to improve safety standards - "safety, safety, safety" - the order has come from the top. The State Council has said safety is a first priority, a western businessman says.

In response to this pressure, the military has grudgingly agreed to release control of some of the air space to CAAC, but western diplomats say the armed forces have been slow to implement this policy.

Lynne Curry

## New money culture

Below, and on the back page, writers examine China's growing township and village enterprises - led in many cases by rural workers who have found fresh incentives and new riches



Township and village enterprises discover new prosperity

## There is no going back

As many as 19m rural enterprises have mushroomed in China over the past 15 years, reports ALEXANDER NICOLL

IN 1978, Mr Wang Zhou Long set up a small steel workshop outside De Yang, an industrial city in Sichuan province which already boasted some formidable state-owned steel plants.

Mr Wang was the village accountant. He had learned mathematics at primary school but otherwise had no formal education. He initially employed 27 people and had, he says, no money, no technicians and no equipment - "the idea was developed by all of us," Mr Wang says. "Everybody wanted to get rich."

Today, De Yang Iron-Steel Plant is the tenth largest township enterprise in China. It has 3,100 staff - almost all of whom previously worked on the land - and earns a pre-tax profit of Yn80m for the eight townships which own it. Its products sell in 23 provinces as well as Thailand and Taiwan, competing with those of state-owned companies - on what had been farmland sprawls a rough-and-ready collection of furnaces and equipment churning out steel bars and pipes.

Mr Wang says he is not a rich man, earning only a salary. But he is a prominent figure in the community as the recently-elected town leader and a member of the National People's Congress.

He is ambitious for his company, having opened two new furnaces this year alone at a cost of Yn70m. With Yn40m still at his disposal for further expansion, "I can negotiate with anybody," he says. He is discussing the establishment of a \$10m aluminium alloy factory with a Taiwan company.

This is just one of the estimated 19m rural enterprises which have mushroomed in China over the past 15 years. Conceived as a means to soak up the surplus of farm labour created by agricultural reform, they have become the most dynamic sector of the economy. The entrepreneurs who run them will have a lasting impact on Chinese life and business culture.

The new bosses are people with little or no education or special skills - in many cases, their schooling was terminated by the Cultural Revolution in the 1960s. They are people who instinctively spot market opportunities and exploit them.

To an extent not known in Chinese business since the 1949 revolution, they must live on their wits. Many of them are already very rich.

Township and village enterprises account for about one-third of China's gross value of industrial output. They employ about a quarter of China's 430m rural workforce, account for about one-third of farm incomes, and are still growing rapidly.

By 1992, according to economists at the International Monetary Fund, they accounted for 25 per cent of China's exports, with textiles, clothing and arts and crafts products accounting for nearly half this figure.

By 1992, according to economists at the International Monetary Fund, they accounted for 25 per cent of China's exports, with textiles, clothing and arts and crafts products accounting for nearly half this figure.

Their activities range across the whole gamut of products and services where demand had not been satisfied by the lumbering central planning system - from car repairs to shoes to vegetables.

Technically, the enterprises are collectively owned by townships and villages and may be quite closely supervised by town or village authorities. Many are, however, effectively in the private sector.

Rural enterprises operate under the advantages and disciplines of the marketplace. They have far greater flexibility than state-owned industry: they do not have to answer to a supervising bureaucracy; they can sell at market prices and set pay levels as they want; because their employees are already housed on the land, the enterprises have no "iron rice bowl" responsibilities to them; they enjoy tax concessions for their first several years and profit re-invested in expanding production is tax-free.



Wang Zhou Long - "I can negotiate with anybody"

The obverse side of this freedom is the absence of the protection enjoyed by state industries. Rural enterprises have no guaranteed market for their products. They have no access to soft loans. When the economy turns against them - as it did with government austerity measures from 1988 to 1991 - many go to the wall. This makes for efficiency but also for vulnerability.

In Xian Yang township near Chengdu, in Sichuan province, where 3,500 of the 15,000 population are employed by 34 township enterprises, the township arranged to inject equity into some of them when bank finance was temporarily cut off this summer because of central government moves to tighten credit.

Frustrated by their inability to predict the whims of Beijing, many rural industrialists are becoming involved in both local and national politics. Potentially, they represent a strong middle class political force. As the government seeks to revitalise sick state-owned enterprises which it has long protected, the businessmen who have come up the hard way will be increasingly sensitive to official favouritism towards state industry.

As they seek to develop, rural enterprises will face a number of problems. Many bosses complain that China's poor infrastructure hampers efficiency and increases costs.

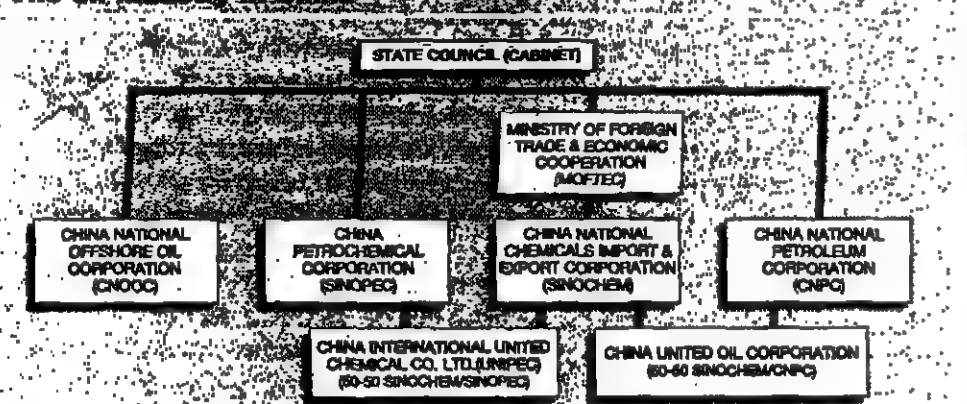
The new culture of competitive, money-making business is to be found in unlikely places. Mr Qiu Guobing, 68 years old and a Communist Party member since 1962, has more than doubled the productivity of his fish farm, a village enterprise just outside Chongqing in Sichuan, since reforms began. He sells his fish by auction to the highest bidder, he runs training courses on fish farming techniques, and his biggest problem is theft.

He sees no going back to the starvation he witnessed in the 1970s - "The People's Commune was said to be paradise. But it made people foolish. People were cheated," he says. "Socialism with Chinese characteristics is very suitable. Local markets everywhere are very prosperous. This way is leading to prosperity."



China aims to have 100m phone lines in operation by the year 2000. Above, a woman checks her pager in Beijing whilst using an old style pay phone, as the money collector waits in the cabin. Photos: Adrian Bostad/STF

## The oil industry in China



## OIL AND GAS INDUSTRIES

## Big shake-up under way

MR HAN GENGSHENG, vice-president of the China National Chemicals Import and Export Corporation, seemed remarkably sanguine for a man who had recently seen his organisation lose its lucrative monopoly over the marketing of Chinese crude oil and derivatives.

"Economic reform will inevitably have some unpleasant effects on companies with monopoly positions," he says. "But I believe that this kind of reform provides challenges and opportunities for development."

Sinochem, as the giant state trading corporation is known - the company ranked 29th in 1992 on the Fortune 500 list - has been obliged to enter 50-50 joint ventures with the China National Petroleum Corporation for crude exports, and with the China Petrochemical Corporation (Sinopec) for the marketing of refined products.

Formation of the new joint venture companies, China Oil and the China International United Chemical Corporation (Unipac), represents one of the biggest shake-ups in China's oil sector in many years, and also coincides with the abolition of the Ministry of Energy under a streamlining approved this year by the National People's Congress, China's parliament.

Mr Wang Tao, chairman of China National Petroleum Corporation, left no doubt in an interview that he derived particular satisfaction from the new arrangements that will involve CNPC not only in the production of crude, but also in marketing.

He plans to use extra revenues from these ventures to further develop CNPC's activities domestically, including investments in refineries. CNPC is also interested in expanding its reach abroad through its China National Development Company, established in 1981, to seek opportunities in exploration and development, but whose activities have been

severely curtailed because of lack of funds. Changes in the oil sector also coincide with the beginning of a period of heightened activity involving foreign companies in the search for oil in China's onshore regions, especially in the promising Tarim basin area of far-western Xinjiang region.

Mr Wang said earlier this year that in addition to the 11 southern provinces of China which had already been opened to foreign involvement, an additional 12 areas would also be offered, including remote regions of Qinghai province and Xinjiang in the west, and Inner Mongolia in the north-west.

China attracted a good response from the oil majors in March when it offered five blocks in the prospective Tarim basin covering an area of 72,730 sq km.

Efforts to engage foreign companies in the development of China's oil reserves (estimated at 200bn barrels) are being given added urgency by the likelihood that by 1995 at the latest the country will become a net crude oil importer.

Mr Wang estimates that exports will exceed imports this year by about 4m tonnes. Onshore production this year is expected to be much the same as last year's 138m tonnes. But he warned that with economic growth anticipated this year of about 13 per cent, it was unrealistic to expect that China could continue to produce more oil than it consumed without big new discoveries.

"The petroleum industry is developing like a tortoise, and GNP growth like a hare," he observes. Even if good discoveries are made in the Tarim basin, it will be some years, and possibly not until the turn of the century before oil is flowing in large quantities from China's far west. The cost of building a pipeline more than 2,000 kms from the Tarim area across rugged terrain to connect with the national pipeline grid is estimated at about Yn2bn.

Exploration activity is also continuing in offshore areas; although the crushing disappointment, not to mention huge losses, suffered by Western companies such as British Petroleum in the 1980s in a fruitless search, has dampened much of the early enthusiasm.

Mr Chen Bingxin, vice president of the China National Offshore Oil Corporation (CNOOC), said his organisation was pressing on with its efforts to engage foreign companies in prospective areas offshore, such as the East China Sea, the Pearl River delta, and waters off Hainan Island in the south.

Mr Chen expects to have awarded contracts for 13 concessions in the East China Sea by the end of the year. CNOOC itself continues to be active in its efforts to lift production at its own wells in areas such as the Bohai Sea, in China's northern water, where it brought onstream a new field in September. It is also looking forward to Agip, Chevron, Texaco, Phillips and Amoco bringing relatively small fields into production between 1994-1996 in the Pearl River area.

This year, CNOOC expects oil production from offshore areas to reach 5m tonnes - and to grow to about 12m tonnes by 1997. But disappointed by results of oil exploration offshore, it is looking increasingly to its gas finds to justify its own existence, and to provide energy to fuel China's booming economy, especially in its energy-deficient southern regions, and Hong Kong. By 1996, CNOOC expects to be supplying 2.9bn cu. metres annually to Hong Kong, and 500m cu. metres to Hainan Island itself from fields off the island's south coast. More finds are being made in waters off Hainan, and CNOOC hopes to be supplying 20bn cu. metres to consumers in Hong Kong and on the mainland by early next century.

Tony Walker



The rising money culture: FT correspondents discover the ingenuity of some of China's growing band of entrepreneurs

## The new rich emerge

**H**EARD the one about the man from Sichuan who made a fortune out of nothing by buying used Russian aircraft in exchange for train-loads of Chinese consumer goods?

This true story is just one of many told in admiring tones to illustrate the helter-skelter of money. Ill-paid bureaucrats are goggle-eyed when they see the riches being made by China's new entrepreneurs. Suddenly, in the words of one, "money is flying in the air."

Here we offer some snapshots of the new culture of money from around China.

### Mr Xue's herbal remedies

OUT of herbs which cost nothing except the labour needed to pick them, Mr Xue Yongbin has in seven years generated a company with Qian annual turnover of Yn300m, writes Alexander Nicoll.

"In my opinion, it's only a starting point," says Mr Xue, who aims to quintuple the figure by 1998.

The company's main products are a lotion and tablets, made entirely from Chinese herbs, for the treatment of vaginal inflammation.

Mr Xue, 41, says he was previously an itinerant worker studying medicine, Taoism and architecture. He educated himself because his schooling was interrupted by the Cultural Revolution. In 1988, he founded Chengdu Enwei group, in which he holds 92 per cent. At the time, few people were willing to invest in a new company - "I was very adventurous to establish this enterprise," he says.

With annual pre-tax profit of Yn100m, Mr Xue is already a rich man - though he professes Taoist beliefs in harmony and helping society. "Money will do no good to the human body, unlike medicine," he says.

Boasting 46 group companies and 30 sales offices around China, as well as in Vietnam, Thailand, Russia and Japan, Mr Xue can see few obstacles to further exponential growth. He is applying to have his

main products approved by the US Food and Drug Administration (as cosmetics, rather than drugs).

After finding that poor packaging limited his ability to export, Mr Xue is building a new packaging plant with imported equipment.

A man with marketing flair which has been rare in China, he is looking for cross-market agreements with foreign manufacturers of name-brand products. Mr Xue uses television and poster advertising in Chengdu, capital of Sichuan province, and is expanding sales throughout China although he is hampered by inadequate railways and roads, power supplies and telecommunications.

And, inevitably for a medicine company with an eye for massive growth, Chengdu Enwei has a cure for AIDS as well as other fatal diseases including liver cancer. Its Qian Kun Ning herbal capsules, according to the company's literature, have "the effect of replenishing Qi to invigorate the spleen, promoting blood circulation, relieving flatulence, removing heat, detoxifying and enhancing the effect of the body's immunity." Chinese researchers are examining the claims.

### Mr Mo's profitable pickles

THE IDEA is extraordinarily simple. But from a few sheds in Sichuan province, Mr Mo Goshun says he makes a profit of five per cent, writes Alexander Nicoll.

His five-year-old enterprise in Xian Yang township cuts, salts and pickles vegetables, and sells them to Japan. Mr Mo himself spotted the market opportunity. Mushrooms which grow wild in the mountains of Sichuan sell for \$250 a kilogram in Japan, he says. He claims that it costs him \$400 to process one ton of mushrooms and that he sells them for \$14,000 per ton.

Seeds for cabbages and other raw materials are imported from Japan, and the enterprise also processes onions, eggplant and other vegetables according

to demand in Japan.

Mr Mo admits that he is already a rich man in Chinese terms - he expects to set up a co-operative agreement with a Japanese company, but says that "we do not need the money."

### Stores report spending fever

"MY POCKETS are bulging with money," says Mr Fan Chunfu, a shareholder in Tianjin's biggest department store. He transports zip-up jackets from the southern provinces to Tianjin, sells around 40 of them a day, and makes Yn1,300 a month, writes Bronwen Maddox.

The store's four teeming floors in Tianjin's Hongqiao district, which open at six in the morning every day, are testimony to the spending fever gripping Chinese families. Customers elbow each other out of the way to try out the electronic games, cosmetics, and karaoke microphones.

Mr Ye Fulong, the store's general manager, explains that the store has been set up as a market, with space rented to private stallholders, "because we [the store's founders] do not have enough experience in developing a market system. Our aim is to mobilise private businesses to do that."

Open for nearly two years, it now has more than 1,000 stallholders who supply their own goods and set their own prices. Trading volume is expected to reach Y300m this year.

□ □ □

"These businesses work according to the law of the market," comments Mr Ye. "If it is cheap, lots of people will buy it."

The managers' embrace of market values is now so firm that when asked what makes a good businessman they give a textbook answer: good information; matching supply with customers' tastes; quick transport; good quality, and setting prices in line with quality.

Although the managers hotly reject the label of speculators, the enterprise also illus-

trates the kind of property deal of which Beijing officials have become wary. The cost of building the store, Yn30m, was financed by a loan from a local property company on an interest rate of 7.2 per cent a year, with part of the interest deferred.

The interest rate is lower than hotels and restaurants would pay "because this kind of project is encouraged by the state" says Mr Ye. "We are selling little goods that people need."

Yet, although they have paid back only a third of the loan, they now have an empty site earmarked for a second, bigger store, which they plan to finance with a second loan from another property company.

Questioned on whether they would earn more money as traders in their own store than as its managers, they roar with laughter, but the eventual answer is "yes." That response reflects one of the new tensions of China: officials and managers are increasingly confronted with the spectacle of poorly-educated entrepreneurs earning a fortune.

The stallholders themselves express no doubts about their new jobs. Mrs Han, 40, who runs a sock stall in the store, used to work in a Tianjin factory repairing machines - "twenty years ago I never would have dreamed I'd be doing this. The market system is good. Business is good."

### New fashions catch on

AFTER ONLY three weeks of running a Japanese joint venture clothing store in Beijing, Mr Kinio Kawasato, is already fascinated by the mystery of conspicuous Chinese consumption, writes Robert Thomson.

"You look at the statistics on what people are supposed to be earning, then you see how much the customers are spending, and the figures don't add up," says Mr Kawasato, general manager of a venture by Taka-Q, famed for its contribution to Japan's post-war development by supplying the standard blue suit to salaried



Latest fashions for the new rich: a lady in Shanghai shops for silk dresses

Pictures by Cathryn Thorne, Bronwen Maddox and Alexander Nicoll



The bosses of the Tianjin department store which has four teeming floors in Hongqiao district - see report: stores report spending fever



Adventurous Mr Xue's herbal products have made him rich

Leimeng staff, accustomed to low-effort service, has been more difficult than coaching recently hired employees.

In Japan, stores such as Taka-Q often keep files on customers and run a discount card system for frequent buyers, but Chinese customers are reluctant to provide information for a personal file. Until now, only the Communist party, the police, and the State Security Bureau have kept personal files.

Taka-Q is supplying the store from its own joint venture factory near Beijing, which also exports garments to Japan. Among men, suits account for about half of the sales, while Chinese women are most influenced by fashion trends started in Hong Kong, Mr Kawasato says.

"The level of brand and quality awareness in China is even higher than that of some Japanese consumers. But the use of the suit is different in China," he says. "Men don't wear a suit to work, but they wear one on their day off, if they go out."

Taka-Q is planning a chain of Chinese stores, though opening dates are not fixed - "If we open more stores, the production costs will fall," he adds. "Before the war, the company had a store in Shanghai, so there is a historical reason for the interest in China."

workers. He puts the willingness of Chinese customers to spend at least Yn1,200 and sometimes much more, on the lack of spending options - "people are not saving for a house or a car, and the taxes are not high," he says. "Food is relatively cheap, so people are using their money for clothes and entertainment."

Tapping into those relatively large urban incomes is the aim of the Taka-Q venture, though publicity in Japan has put the shop on the tourist map for visiting Japanese. While Mr Kawasato was explaining how he has encouraged good manners among the shop assistants, a tourist group was

downstairs looking for Japanese quality at Chinese prices. The store, near the main Beijing shopping street of Wangfujing, is a joint venture with Leimeng Garment, which ran a Mao suit store during the cultural revolution. As political fashions changed, Leimeng moved into western suits and, now, a foreign partnership in Italian-style suits, leather jackets and business shirts.

□ □ □

Taka-Q Leimeng looks like one of the Japanese company's outlets in suburban Tokyo, but Mr Kawasato is still coaching the sales assistants in the Japanese arts of politeness. In many Chinese stores, change is often tossed back at customers by mute assistants for whom a sale is an unwelcome intrusion.

"We have trained the assistants to say, 'thank you very much, please come again,' as would be the case in Japan. I think the customers can feel a difference between this store and other Chinese stores, but our levels are still not high enough," he says.

Mr Kawasato has made the assistants more attentive to sales by giving them a relatively low base salary and introducing a commission system. But retraining the former

New Issue/July 1993

HK\$2,654,000,000

Shanghai Petrochemical Company Limited

Co Sponsor/Lead Manager



New Issue/July 1993

HK\$189,000,000

Stone Electronic Technology Limited

Sponsor/Lead Manager



New Issue/July 1993

HK\$301,600,000

Guangzhou Shipyard International Company Limited

Sponsor/Lead Manager



New Issue/February 1993

HK\$402,600,000

Denway Investment Limited

Sponsor/Lead Manager



## Soaring achievements in China

With offices in Beijing, Shanghai, Shenzhen, Guangzhou, Nanjing

### Financial Services:

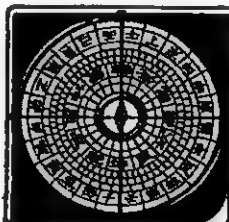
Corporate Finance, Stock Broking, Direct Investment, Asset Trading, FOREX, Commodity Dealing, Investment Management

**PEREGRINE**

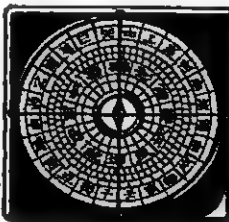
HONG KONG • CHINA • SINGAPORE • KOREA • PHILIPPINES • THAILAND • INDONESIA • MALAYSIA  
VIETNAM • MYANMAR • AUSTRALIA • LONDON • NEW YORK

Head Office: 23/F New World Tower, 15-16 Queen's Rd., C., Hong Kong Tel: (852) 825 1888 Fax: (852) 845 0411

Beijing's finest point



is right



in its centre.

**王府飯店**  
THE PALACE HOTEL  
Beijing

"The Best of the World"

SHARE THE EXPERIENCE

The Peninsula • Hong Kong • Manila • New York • Beverly Hills • The Palace Hotel Beijing • The Kowloon Hotel Hong Kong

Handwritten note: 150



# SWISS BANKING AND FINANCE

Thursday November 18 1993

**S**WITZERLAND'S international financial services sector is enjoying an unexpected and vigorous revival. It is not just the fact that the country's big universal and private banks are heading for bumper profits this year. Big banks and brokers everywhere have benefitted from buoyant securities and money markets in recent months.

And it is not just the fact that the brisk inflow of foreign investment capital is continuing, although the decision by the Swiss a year ago to eschew closer ties with the European Union has undoubtedly helped refresh the country's image as an independent safe haven.

More importantly, the financial scene has been energised by the recent removal of stifling restrictions on importing skilled professionals, the removal of some transaction taxes and improved education programmes.

A new sense of optimism is emerging that Finanzplatz Schweiz can after all retain a useful and profitable role in European finance in the face of increasingly stiff competition from London and other large centres.

While hundreds of clerical jobs are being lost as banks rationalise branch networks and streamline back office operations, many new high value ones are being created in the country's increasingly lively securities and derivatives markets.

Indeed, activity is so brisk that the Zurich Stock Exchange, whose leaders were in a state of high anxiety two years ago over the burgeoning trade in big Swiss equities in London, is planning to open a seventh trading ring next February, either for Swiss bonds or for foreign equities.

The derivatives markets, underdeveloped and lagging two years ago, have been helped by improved education programmes in Swiss universities and a more liberal government policy on granting work permits to highly skilled people.

Last year, the authorities would allow Credit Suisse Financial Products to bring in only two experts from its London base. Now, banks can bring in whoever they need. "Zurich is at the state of the art," says Mathis Caballavetta, Union Bank of Switzerland's director responsible for derivatives. "We feel we can do anything here that could be done in New York or London, and we are regaining ground."

The one dampening element in this revival is that the Swiss economy is in a dreary state, having suffered three years of mild recession and some economists believe even a weak recovery is still some months away.

Thus, while securities and international financial business are booming, the domestic commercial banking scene is in a dismal state. Three years of slumping property markets, sluggish sales for industrial companies and falling tourism activity



The banking and insurance area of Place St François in Lausanne: smaller cantonal and regional banks are less resilient and the trend to painful consolidation in this area continues

## Brisk activity on most fronts

Continuing recession is a dampening factor but a sharp upturn in its fortunes is persuading the sector that it still has a useful role to play in European finance, writes Ian Rodger

Have left banks with an unprecedented level of bad debts.

The big universal banks can and will absorb record provisions for bad loans this year without breaking stride, but the smaller cantonal and regional banks are not so resilient and the trend to painful consolidation in these sectors continues.

The number of regional banks, for example, has tumbled from 190 to 150 in the past two years, and Mr Roland Boesch-

stein, deputy director of the Association of Regional Banks, says the process, which has slowed so far this year, is likely to accelerate again when bank directors take stock at year end.

Ironically, the biggest single consolidation seen to date, the takeover by Credit Suisse of Swiss Volksbank early this year for SFr1.6bn, (£740m) appears to have intensified the competitive struggle, at least for the time being. At a stroke, this

acquisition catapulted Credit Suisse from a weak third position in most domestic markets to a neck and neck battle with UBS for leadership.

Both UBS and Swiss Bank Corporation - the latter now an embarrassed number three in most markets - have responded by stepping up their marketing efforts, undoubtedly in the hope of picking off disaffected customers from Credit Suisse or Volksbank. Others have had no choice

but to follow. "We thought that after everyone took a bath in the mortgage market in the past two years, a risk premium would appear this year, but no way," says Mr Josef Ackermann, the new chief executive of Credit Suisse.

One immediate consequence is that the big banks are, if anything, accelerating their cost-cutting programmes, including eliminating jobs.

This has gone down badly with the gen-

eral public. Many people cannot understand how the banks can be so insensitive at a time when they are making record profits and when unemployment is already soaring because of lay-offs by hard pressed industrial companies. But the banks, if slightly uncomfortable with this criticism, are unrepentant. "It would be totally wrong to finance the weak, domestic side from our trading profits from elsewhere," says Mr Ackermann. "We would be heavily and rightly criticised three years from now if we did not act."

The private banks, too, are having a banner year. Most of these banks, which specialise in managing private fortunes and, to an increasing extent, institutional portfolios, are themselves private and do not publish their financial results.

But Baer Holding, one of the largest, reported that its consolidated net income more than doubled in the first half to SFr71m, with the volume of clients' assets up 17 per cent to SFr38.7bn and trading income more than doubling to SFr14m.

This sparkling performance has helped rebuild confidence that this sector, the heart of the Swiss financial centre, can remain internationally competitive. Estimates put the value of foreigners' funds in the country at more than SFr1,000bn, a third of all offshore investment.

That may be a big drop in market share from the near monopoly that Swiss bankers had early in the century in this high margin field, but "the miracle," says one private banker, "is that we have held on to as much as we have."

"Our market share is an advantage," says Mr Hans-Dieter Vontobel, chief executive of the eponymous private banking group in Zurich. "It enables us to do things that someone starting from zero cannot do." Mr Vontobel published a book two years ago expressing concern about the future of the Swiss financial centre, and in particular about the commitment of the big universal banks to it. At the time, the big banks seemed to be moving many activities - especially in the securities field - to London.

Today, he confesses to having become "rather optimistic". He points in particular to the development of the national electronic stock exchange, due to be completed late next year after two false starts in the late 1980s. That development, with the removal of some transaction taxes and aggressive cost-cutting, makes operating in Switzerland look much more attractive.

"The big banks realise that we are now able to be low cost producers. London outmanoeuvred Switzerland and others in the 1980s, but it has its problems now. I cannot comment on the outcome of the war, but the next battle could go to the continent and to Switzerland," Mr Vontobel says.

ate  
onn

gues that it is extend working inter the trend to ment. "We need e for the social tem," he says. not come from butions, if we can urrent trend, and nd normal work.

ues in favour of a ung week, and a . the normal time er education: the "man university

ne of rising struc- yment, those are ively opposed by ovement, which g time cut to cre- s. Employers are use early retire- atively painless workforces.

the government o cap its social omittments - for a 3 percentage unemployment lishing the "bad ay" and putting a earnings-related small way, with- the underlying

same with the health reforms last January, ists in the short at changing the ructure of a sys- sts are geared to y with an ageing

problems in the ave been all too ified. Long-term ! in desperately

th article on woi- round the world, clas appeared on number 2, 8, 17

## When you get near the top you see things differently



Your perspective changes. You take a more strategic point of view.

But understanding everything you see isn't easy. The speed of change in so many areas of business means that, to be fully effective, a senior general manager needs to periodically review the business environment, re-examine the factors for success, and look at how his role may be changing.

At IMD, our principal focus of attention is on the executive education of senior management, and one of our longest-running programs is designed precisely to promote this review. The *Seminar for Senior Executives* will help you update your strategic skills, readjust your horizons and examine the changing art of leadership.

We invite you to join a select, international group of your peers in sharing the SSE experience.

Please call or fax for a program brochure.

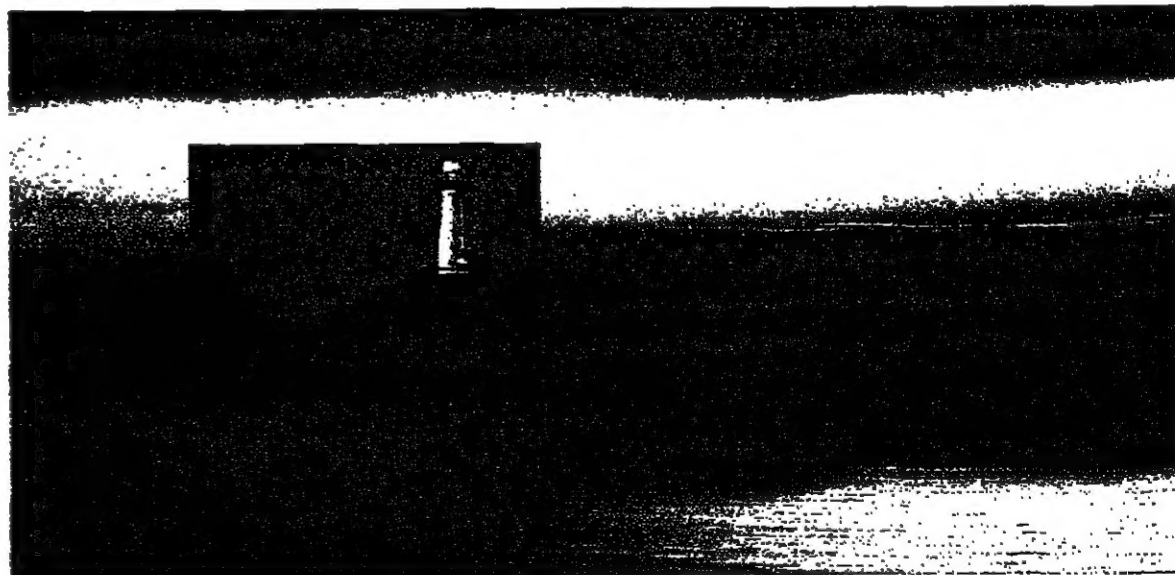
Dates 1994: May 30 - June 16; October 24 - November 10  
Fee: 21,000 Swiss francs



INTERNATIONAL INSTITUTE FOR MANAGEMENT DEVELOPMENT

Chemin de Bellevue 23, PO Box 915, 1001 LAUSANNE, Switzerland. Telephone: +41 21 618 02 55 Fax: +41 21 618 07 07

## Chart your course with the right instruments and people BSS personalized investment services



At BSS we have not only the right

tools to achieve your objectives

but, most important, also the right

people to master them. The proof

is in our performance.



BANQUE SCANDINAVE EN SUISSE

Geneva: 11, Cours de Rive P.O. Box 901 CH-1211 Geneva 3 Tel: (+4122) 787 31 11  
Zurich: Schipfe 2, (Rathausbrücke) P.O. Box 5130 CH-8022 Zurich Tel: (+411) 299 33 33  
Luxembourg - London - Monaco - Stockholm - New York - Martella



## SWISS BANKING AND FINANCE 2

## ECONOMY

## Little to celebrate

THERE is not much joy in the Swiss economy these days, but neither is there any sign of its prospects appearing to be as bad as many have feared.

The country is coming to the end of the third year of a recession that has been unpleasant, but mercifully shallow. According to recently up-dated figures, real gross domestic product was in fact stagnant in 1991 and contracted by only 0.1 per cent last year. It is expected to fall 0.7 per cent this year.

The slump was initially self-imposed, as inflation shot up to more than 6 per cent in 1990, forcing the Swiss National Bank to tighten monetary policy just as other stimuli were showing signs of flagging.

On the other hand, exports, which account for more than a third of GDP, held up remarkably well, growing 3.4 per cent last year. But they have sagged this year as the German economy has slumped.

By far the most damaging aspect of this recession has been its impact on jobs. The unemployment rate has shot up from less than 1 per cent in 1990 to 4.5 per cent, with a record 170,000 people now out of work. Economists agree that this will worsen next year.

High unemployment has had a strong impact on other elements in the economy. Soaring spending for welfare benefits has been the main contributor to the government's record breaking deficits in the past two years.

Economists also suspect that the nervousness that has sent private consumption plunging much more deeply than in previous recessions. Consumption was off 0.3 per cent last year, and tumbled 2.5 per cent and 1.2 per cent in the first and second quarters of this year respectively.

There is an uncommon unanimity among analysts that the economy is at last bottoming out, but no one expects it

to recover quickly next year. Among the leading forecasters, the Lausanne-based Crea Institute for Applied Macroeconomics and Zurich-based Centre for Research of Economic Activity (KOF) are the most optimistic, expecting GDP growth of 1.7 per cent and 1.5 per cent respectively. Bank Julius Baer is at the bottom of the range, seeing only a 0.9 per cent growth.

Whatever the outcome, no one expects that growth will be strong enough to reduce unemployment.

Inflation, on the other hand, has been largely wrung out of the system. The central bank expects it will drop to under two per cent by the middle of next year compared with the September rate of 3.4 per cent.

## High unemployment has had a strong impact on other elements in the economy

The differences in the forecasts seem mainly to reflect differing views on the outlook for exports. The Swiss National Bank seems to side with Baer.

Mr Georg Rich, director and chief economist, says he is sceptical of the optimistic forecasts of German recovery recently published by the German institutes. The recovery, he says, is more likely to be led by private consumption, as people gradually lose their nervousness about unemployment.

The more interesting question is the state in which Swiss industry will emerge from the recession. It has taken a beating in the past two years. A September survey of 200 industrial firms by Union Bank of Switzerland found that average capacity usage had dropped to 81 per cent and two thirds of the companies employed fewer people than a year ago. Only 4 per cent expected orders to rise in the fourth quarter.

Moreover, there has been much moaning in Swiss industrial circles about the difficulties exporters now face. One obstacle is the strong Swiss franc, bolstered by large inflows of haven-seeking capital in the past year and supported by a fairly rigorous

monetary policy.

The central bank, having been burnt once in the late 1980s, is hesitant to stimulate the economy beyond its medium term target of one per cent growth in the monetary base.

In the first half of 1992, the bank was much criticised for maintaining a tight grip. But since then, it has regained credibility, taking advantage of rises in the franc which have been caused by capital inflows to reduce interest rates unilaterally.

The spread between German and Swiss short-term interest rates is still over 150 basis points and the franc remains strong, but the bank seems in no hurry to provide further unilateral relief.

The more worrying problem for exporters is the possibility of discrimination in European markets as a result of Switzerland's decision last year to remain outside the European Economic Area (EEA).

Mr Rich and others believe that Swiss industrial companies have made great strides during the recession to improve their competitiveness. This is shown by the fact that corporate profits have remained at respectable levels.

Thus, they should be able to absorb the marginal extra costs of border formalities that their European Union competitors will no longer face. But by private consumption, as people gradually lose their nervousness about unemployment.

Mr Kurt Schlittmecht, managing director of BZ Trust in Zurich, a fund management firm, is especially optimistic. "People are underestimating the progress our companies have made," he says.

"Of course there will be some unpleasant surprises in Europe, but that is a challenge to produce better products. Swiss companies should not be in businesses where a sale depends on a 2 or 3 per cent margin."

Mr Schlittmecht also points out that Swiss companies have already had some important benefits from being outside the EEA, notably the lower interest rates made possible by the large capital inflows.

Ian Rodger

The market is flourishing but beware of competitors, says John Gapper

## Private factor is potent attraction

THE mood among Swiss private bankers these days is a mixture of gratification and apprehension. They are gratified because asset management for wealthy individuals is now a flourishing market in spite of decades of scepticism about its future. They are apprehensive because the boom has brought with it competition from unlikely sources, including retail banks in Europe and America.

The strength of competition has raised questions over whether Swiss banks, and in particular the small privately-capitalised Geneva banks, will continue to exert their dominance over offshore private funds of \$2,100bn.

The alternative is that they will be squeezed out by other centres, and by large institutions which attempt to offer similar services from bases in Switzerland.

Chase Manhattan estimates that 35 per cent of private client funds are managed from Switzerland. The near-monopoly of Swiss private banks in the inter-war period has been gradually eroded. But the country's political and financial stability, traditional expertise and banking secrecy remain potent attractions, in spite of strong competition from Luxembourg and London.

"Knowing others think this is an interesting sector is a reassuring confirmation that we were right in decades when people said it was not that important," says Mr Thierry Lombard, one of six partners of Geneva-based Lombard, Odier & Cie.

Competition has intensified as banks have looked at private banking as a commission-earning activity with lower capital risks than leading.

"It is a fee-earning business with relatively good margins, and the bulk of it is off-balance sheet, so you can achieve a good return on capital," says Mr Jean Pierre Cuoni, chief executive of Coutts & Co AG, the international private banking arm of National Westminster Bank.

Banks are also encouraged by the potential growth of wealthy individuals in emerging markets in Asia and Latin America.

Banks that already manage assets and provide capital markets services to large corporate clients and institutional funds, can offer similar services to rich individuals at relatively low marginal cost.

Mr Georges Vergnion, chairman of Chase Manhattan Private Bank in Geneva, says that Chase's derivatives expertise and technology is one example of a transferable resource.

International banks, such as Chase and National Westminster, are unconcerned about

Switzerland's future as a private banking centre.

"Switzerland is a banking centre, a product, for us," says Mr Cuoni. "I am not worried if people say other centres are coming up. We are there too."

The fortunes of Swiss private banks are more intertwined with the country's competitive advantage.

Yet maintaining that advantage requires a delicate balancing act. The private banks must be large and expert enough to provide clients with the enormous range of modern financial products and capital instruments. Yet, they must maintain the small-scale, personalised service that allows them to command private cli-

ent fees big enough to offset larger competitors' economies of scale.

Mr Hans Bär, chairman of Bank Julius Bär in Zurich, says that the primary emphasis must be on individuals. "The margins are slim on asset management and global custodianship. It is the private client who pays the bill," he says. Mr Lombard agrees. "We may sell part of our expertise outside, but the bulk of our research must be devoted to our clients," he says.

This principle is more easily enunciated than achieved. The Swiss banks need to boost private client assets with institutional funds, 45 per cent of Lombard, Odier's assets under management, are institutional.

This gives them an incentive to concentrate on fund rather than portfolio management, devoting research to overall asset allocation instead of selecting individual mixes for clients.

This tendency has been reinforced by the growth in mutual funds from the US, which offers individuals the chance to diversify risk and to spread investments around different markets.

Private banks increasingly act as intermediaries between their clients and such funds, sometimes making markets in investment fund holding to allow private clients to swap among them easily.

Mr Bär says that private cli-

ents have become preoccupied by fund performance. "It is less and less about 'Is this a good bank?' People ask about the funds now," he says.

This could mean that private banking will become a "commoditised" business, with margins falling as a growing number of competitors are able to offer fund management expertise similar to the established participants.

Nor is it simple to decide which form of institutional business banks should seek.

## Surveys have found that clients still value the traditions of service

Some are now having to choose between offering large corporations asset management services, or becoming global custodians that manage securities portfolios.

Calculating which option is more profitable in the long term is "a difficult call," according to Mr Patrick Odier, a partner of Lombard, Odier.

Mr Vergnion argues that such trends favour big banks "which can allow their private banking arms to draw on the expertise of other specialist activities, such as institutional fund management and capital markets."

"We have already seen some of the smaller banks merging. Those that cannot invest in

people and technology are going to be squeezed out," he says.

Mr Vergnion believes that international banks with a presence in Switzerland have an edge in attracting new clients because much of the emerging wealth is among entrepreneurs in Asia and Latin America.

Chase says that it is gaining market share, although its 31 per cent growth in assets under management, so far this year, includes money entrusted to it by independent advisers.

The Swiss banks remain a competitive force. Surveys have found that clients still value their traditions of service highly and are prepared to pay a premium for it. The survey also found that private banking is merely the latest fad for some of their competitors also being.

They have specialised in client asset management for as long as their names and addresses alone are an advertisement.

"We are willing to render service in the very long term, and we devote our capital to our clients' needs. That is important," says Mr Odier.

Yet in a world where the average retail investor can buy equity options or take a stake in a mutual fund, the Swiss banks must work increasingly hard to demonstrate that their expertise remains a unique asset.

John Gapper explains why cost-cutting follows record bank profits

## Spectacular returns bring big three the risk of protest

THE international boom in securities underwriting and derivatives trading has created record profits for Switzerland's three biggest banks - but the achievement could not have come at a more awkward time. As they cut costs in the competitive domestic retail market, the banks now risk political and consumer protest.

The success of Union Bank of Switzerland, CS Holding, and Swiss Bank Corporation in diversifying into profitable forms of international business was rewarded spectacularly in the first half. Post-tax profits increased by 58 per cent, with trading income doubling in the first half of 1993.

This gave them a respectable 13 per cent return on capital, despite domestic returns of between 5 and 6 per cent. The three have suffered from low returns in the past because they have high ratios of equity to assets. They have maintained their solidity at the expense of short-term returns.

But concerns over the sustainability of trading revenue and risks associated with derivatives mean that each is trying to improve long-term profitability. This involves restructuring of domestic operations and some highly cautious provisioning against bad debts to provide a cushion for the future.

"The trading side is volatile and makes us vulnerable," says Mr Josef Ackermann, chief executive of CS Holding's

The domestic market is characterised by high levels of competition and slim interest margins

Credit Suisse. "The things which will remain with us are cuts in costs and a high level of provisions." Mr Ackermann says the big three must be cautious because the Swiss economic outlook is uncertain.

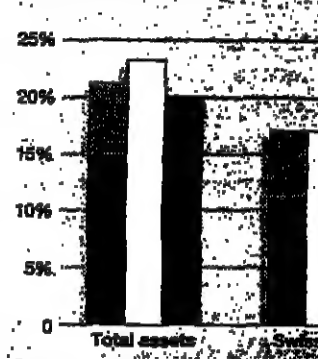
The Swiss domestic market is characterised by high levels of competition and slim interest margins. Swiss banks also went through a period in the 1980s when they offered a large and expensive range of products to personal customers, and kept large networks of indistinguishable branches.

The banks face political problems in improving net interest margins from the current level of 1.4 per cent. They have been unable to match the rise in mortgage margins achieved in other countries because of public antagonism. Customers are also astute at not leaving interest-free deposits.

This means that attention has focused on cost-cutting and simplifying products. Mr Robert Studer, chief executive of UBS, says: "In the 1980s all the banks introduced products of a sophistication that the customer did not want or understand, and certainly was not prepared to pay for."

Cost-cutting has been given impetus by the acquisition of the fourth largest bank - Swiss

## Market share



## Operating profits



Volksbank - by what was the third largest by asset size, CS Holding. It is estimated by Lehman Brothers, the investment bank, that cost-cutting could improve domestic operating profits by 15 per cent by 1995.

But the CSH/Volksbank deal has also reinforced the banks' contest for size. Mr George Blum, chief executive of Swiss Bank Corporation, says his domestic priority is to increase market share by measures that include buying small banks, and using unspecified new distribution channels.

Mr Blum emphasises that SBC will do all it can this year to make bad debt provisions high enough to ensure a profits gain from falling provisions over the next few. "It is best for them to be as high as possible in the special circumstances of this year to give us a totally safe base," he says.

The challenges in international operations are different. The banks have gained by not making similar mistakes to those of US and European banks which expanded into loss-making retail overseas operation in the 1980s. Instead, they have concentrated on more profitable corporate and securities businesses.

The banks have gained from their derivatives strength as currency and interest rate volatility have drawn huge demand from corporate customers for risk management services. SBC's derivatives liabilities and credit substitutes alone rose by about a third last year from SFr1,017bn to SFr1,544bn.

While the banks' strong capital is likely to help them keep their market share, concerns focus on narrowing of margins and trading risk. Mr Ackermann says that "derivatives are here to stay", but adds that he expects margins to narrow

## banks achieving returns on common equity of 15 to 20 per cent on strengthened capital, pressures may mount.

In one sense, the world is moving in the direction of the big three. There is a growing international emphasis on strong capital ratios in investment banks, as securities underwriting and derivatives. The Basel accord on minimum capital ratios has also encouraged banks to meet Swiss standards.

Nonetheless, Switzerland is not immune from shareholder activism, with UBS already facing a legal challenge from BK Vision, the investment company which holds a 15 per cent stake. There could be external pressures to concentrate on higher earning businesses, to raise overall returns.

Mr Blum says that "a bank can produce returns of 15 per cent in future, but it is very hard to do so. It is the alternative to our capital would be to move out of the bank."

Mr Studer says that "it would be wrong to devote too strongly on short-term returns. It must be a long-term activity which can be profitable over the long term."

External pressures could mount to focus on higher earning businesses so as to raise total returns.

Infrastructure, we can get stable income from markets where we've had a limited role," says Mr Ackermann.

The biggest strategic question facing the banks is whether they can maintain their approach of valuing capital strength at least as highly as return on equity. With US

## A NEW NEWSLETTER FROM THE FINANCIAL TIMES

## European Savings Markets

## THE TWICE-MONTHLY INTELLIGENCE SOURCE FOR EUROPEAN INCREASINGLY COMPETITIVE MARKET FOR EUROPEAN HOUSEHOLD SAVINGS

European Savings Markets (ESM) has been launched to provide all the markets for personal savings and the information they need to plan for the future.

Each issue keeps subscribers fully informed about developments in all the markets for personal savings and the information they need to plan for the future.

What can you learn from a European Savings Markets newsletter?

What can you learn from a European Savings Markets newsletter?

What can you learn from a European Savings Markets newsletter?

What can you learn from a European Savings Markets newsletter?

What can you learn from a European Savings Markets newsletter?

What can you learn from a European Savings Markets newsletter?

What can you learn from a European Savings Markets newsletter?

What can you learn from a European Savings Markets newsletter?

What can you learn from a European Savings Markets newsletter?

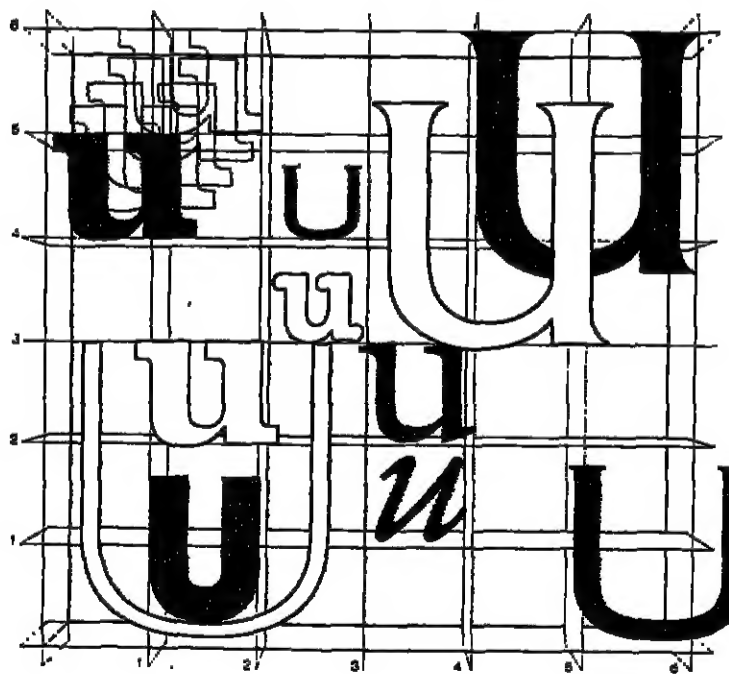
What can you learn from a European Savings Markets newsletter?

What can you learn from a European Savings Markets newsletter?

What can you learn from a European Savings Markets newsletter?

What can you learn from a European Savings Markets newsletter?

Most banks have an excellent idea about money. We have several.



Whether your needs are for institutional portfolio management, or for the acquisition, sale and related financing of a company, Unigestion is the investment bank that has the right ideas to meet your requirements.

Our particular strengths: the search for imaginative and creative solutions adapted to the needs of each one of our clients.

Bank Unigestion. Our business is to match your unique requirements with tailor-made ideas.



BA NQUE UNIGESTION

tailor-made ideas

2, RUE DE JARONNIER - P.O. BOX 145 - 1211 GENEVA 6 SWITZERLAND - TEL: 022 736 41 41 - TELE: 413 175 FAX: 022 736 73 07

the very least Russia is likely to need World Bank help if it is to proceed. In the Ukraine, unable and

the WANO governing board and deputy general manager of Electricité de France, told the

fuels and other factors over which the nuclear industry has little control.

NB POWER



## ■ THE STOCK EXCHANGE

## Electronic trading approaches reality

THE Swiss stock exchanges finally seem to be near to the introduction of electronic trading. Mr Dieter Sigrüst, secretary of the new Swiss Stock Exchange, says the current project for developing an electronic system is on schedule to be introduced in the spring of 1995. "Both on the technical side and on the political side, we are on track," Mr Sigrüst said.

This is a considerable achievement, considering the rough ride that Swiss banks and brokers have had in this area over the past few years.

Plans for an electronic exchange in Switzerland were first outlined in the mid-1980s. At the time, seven bourses were operating in the country but intensifying competition from other European exchanges made the need to concentrate activity more pressing.

However, given the strength of regional sentiment, it was unlikely that the others would willingly cede the field to the Zurich Bourse, by far the largest of the Swiss exchanges.

The creation of an electronic exchange provided an elegant way of avoiding loss of face as physical location would be irrelevant to such an exchange.

Two attempts to create such a system were made in the 1980s, the more ambitious was designed by Andersen Consulting. But in late 1990, the project was suddenly scrapped. By then four of the seven

exchanges had closed, leaving only Zurich, Geneva and Basle.

Moreover, business was depressed and fixed commissions had just been abolished, leaving brokers uncertain about their future income. Many thought the Andersen project, which some said could cost more than Sfr100m by the time it was installed, was extravagant.

Andersen and the stock exchanges are still in court arguing over the consultants' fees, which are expected to be between Sfr20m and Sfr40m.

To their credit, the exchanges went back to work to design a more modest system, and agreed on a plan that would be based on one developed for Australia's stock exchanges.

Ironically, the Australian system had been based on one developed for the Swiss Options and Financial Futures Exchange (Soffex) in the early 1980s.

The development budget is Sfr30m and

Mr Sigrüst says about half of it has been spent to date. The system will handle trading and connect to the Swiss Clearing Corporation (SEGA) and the Swiss Interbank Clearing system (SIC) for processing settlements.

In preparation for the launch of the electronic exchange, a number of organisational changes have taken place or are foreseen.

First, a legal association called Swiss Stock Exchange (SSE) was established in May this year to take over responsibility for completing the exchange from the Association of Tripartite Bourses. It will also operate the exchange.

Initially, only members of the three existing stock exchanges are SSE members and, for legal reasons, this is likely to prevail for the initial years of operation.

Direct membership will become possible as soon as one of the three founding exchanges ceases operations, but that will



Traders on the Zurich Bourse: physical location would be irrelevant to an electronic exchange

only happen when the relevant canon agrees to give up its collection of taxes on securities transactions.

SSE has already taken over responsibility for trading regulations and listings from the Association of Swiss Exchanges, which has been dissolved.

Soffex, hitherto owned by the big banks and other exchange members, became a wholly owned subsidiary of SSE last month. One result of this move was that Soffex last summer dropped its plans for co-operating with other European futures exchanges. Instead, it will wait and

develop an external policy together with the stock exchange.

Another consequence is that the Soffex computer system will be transferred to a new computer complex that will be set up for the Swiss exchange.

Meanwhile a new federal stock exchange law is being prepared to replace existing cantonal ones. It will probably not become fully effective until near the end of the decade and so the existing stock exchange entities and, more important, tax systems will remain in effect even after the electronic exchange has started to operate.

Ian Rodger

THE SWISS bond market has enjoyed a second year of recovery, helped by falling interest rates and the unusual emergence of a substantial public sector deficit. The big three - Union Bank of Switzerland, CS Holding and Swiss Bank Corporation - now dominate the lead managing of issues even more than in the days of the bond syndicate cartel. They expect another six months of strong primary activity, but are uncertain what will follow.

Some traditional characteristics of the bond market have reappeared, following an exotic period in the 1980s which saw an outbreak of equity-linked Japanese issues and swapped deals by borrowers without triple and double A ratings. Although volume in the first nine months of 1993 equaled that of the whole of last year, there has been a renewed emphasis on simplicity and quality.

The unanswered question is whether Swiss retail investors, who buy most foreign issues, will be drawn into higher yielding bonds when interest rates fall further.

"Our investors are very conservative. I imagine that we may see some change when we have very low rates, and they start to accept higher risk," says Mr Jean-Luc de Buzan, a

Higher yield bond issues may lure retail investors, says John Gapper

## Back to traditional values

first vice-president of Union Bank of Switzerland. "Investors will look for higher risk again eventually. That will give people like us the chance to bring new names or structured deals to the market," says Mr Jules Keller, of SG Warburg Securities in Geneva.

But that time has not yet arrived. Sfr16.9bn of foreign straight issues up to November 4 were rated AAA, while Sfr1.5bn were AA, Sfr1.5bn were A and Sfr450m were lower than A.

In addition, the fall in interest rates this year - government bond yields have dropped from about 5.6 per cent to 4.2 per cent - has not yet turned the yield curve positive. This has limited the scope for foreign borrowers to tap the market through swapped issues. Only a third of foreign straight issues so far in the second half have been swapped, compared with as much as 75 per cent at times in the 1980s.

Nonetheless, domestic and

foreign markets have been active. The foreign market has been helped by liberalisation, including the abolition of stamp duty and by the end of the requirement for banks participating in syndicates to be domiciled in Switzerland. The fall in interest rates has helped the Swiss market to join in the worldwide trend towards refinancing of corpo-

rate debt and capital raising.

This activity has been matched by the domestic sector, which issued Sfr28.3bn of bonds in the first 10 months compared with Sfr33.5bn in foreign issues. The biggest innovations have also occurred in the domestic market, including synthetic option bonds lead managed by Swiss Bank Corporation, offering options on Zurich insurance equity in the case of a Sfr154m issue for the City of Zurich.

(Switzerland) achieving more than 5 per cent among the rest.

This is largely because of their immense placing power with Swiss retail investors, which allows them to operate profitably in a market where underwriting fees are virtually given away in issue pricing. Allegations that the big three also gain by being able to "steal" their investors' portfolios have largely disappeared as competition among them has stiffened following the end

of the cartel. "If someone says the Swiss are not opening up their market, I say: 'What can you contribute? What can you offer?'" says Mr Hans Rudolf Zehnder, the head of syndicate and primary sales at Credit Suisse. He argues that the big three banks have "a unique situation" in the Swiss market because it is dominated by retail investors that only they can reach through their investment networks.

Opinions vary on whether the big three have also been helped in to gaining market share by the rise in volume this year. Some competitors say that their placing power allows them to take the risk of mispricing an issue without becoming over-stretched. But others acknowledge that the fall in interest rates has reduced the obstacles to competitors with less placing power clearing an issue.

Whichever is true, the big three's dominance of underwriting raises the question of whether they will sustain

losses next year as short-term rates reach a floor and they face difficulties in distributing the whole of the most aggressively priced issues.

Most banks expect a floor in yields to be reached in the middle of 1994. When it happens, primary activity may subside, although the emergence of a mildly positive yield curve is likely to sustain investment in medium-term and long bonds and improve conditions for swapped issues. Banks are also preparing for a structural shift towards higher yielding bonds.

It is not only banks outside the big three that want to encourage this. Mr de Buman of UBS says the market must protect itself against a slackening of supply by persuading investors to consider issues outside the higher investment grade "religion".

But the big three know that the wider the spread of issuers, the more competition they will face from other lead managers. One of their strongest protections against losing market share is their expertise in derivatives, which has already allowed them to structure innovative domestic issues, and will be helpful if greater interest in swapped foreign issues emerges next year.

## ■ DERIVATIVES

## Volume hits new highs

WITH interest rates cut by half in the past year and share prices up 40 per cent, it is hardly surprising that Swiss franc derivatives markets have been booming in recent months.

The Swiss Options and Financial Futures Exchange (Soffex) hit an all-time high volume on October 15, with 151,231 options contracts traded, and by the end of October, volume traded had surpassed last year's 15.1m futures and options traded.

In the listed options market, trading volume is now more than Sfr200m a day, and OZ Zurich Options and Futures, one of the most active specialists in this market, has just reported that its net income doubled in the first nine months to Sfr21.5m.

Over the counter volume has more than doubled too, according to Swiss Bank Corporation, the leading designer of tai-

lor-made option packages. "We have had a perfect environment," an SBC derivatives specialist said.

Market participants have noticed a significant deepening of the markets, with not just the big Swiss banks, but also US investment banks, such as Merrill Lynch and Goldman Sachs becoming more highly active.

One consequence of the buoyant conditions is that the competitive tensions among the three elements of the Swiss derivatives scene appear to have relaxed, with increasing recognition in the various camps that there is a role for everyone.

It has also been a year of innovation. Since April, the top 50 warrants in the listed market have been traded continuously, and the list is adjusted weekly.

Continued on page 4

## TAKING YOU BENEATH THE SURFACE OF WORLD HEADLINES: THE SWISS REVIEW OF WORLD AFFAIRS

In-depth balanced reporting, objective analysis and insightful commentary are the key elements that have given the renowned Swiss daily, the NEUE ZÜRCHER ZEITUNG, its enviable reputation in and outside Switzerland. Now these same qualities are available in English in the SWISS REVIEW OF WORLD AFFAIRS, a monthly magazine filled with NZZ articles on political, economic and cultural affairs from every corner of the globe.

If you subscribe now you will receive two extra copies free i.e., 14 for the price of 12. (Subscription rate for one year Sfr. 78.-/US\$ 58.-) Please mail this coupon to: SWISS REVIEW OF WORLD AFFAIRS, P.O. Box 660, CH-8021 Zürich, Fax: +41-1-258 18 39.

Please send me: ☐ the next 14 issues at US\$ 58.-  
☐ one free sample copy

Name/Company

Address

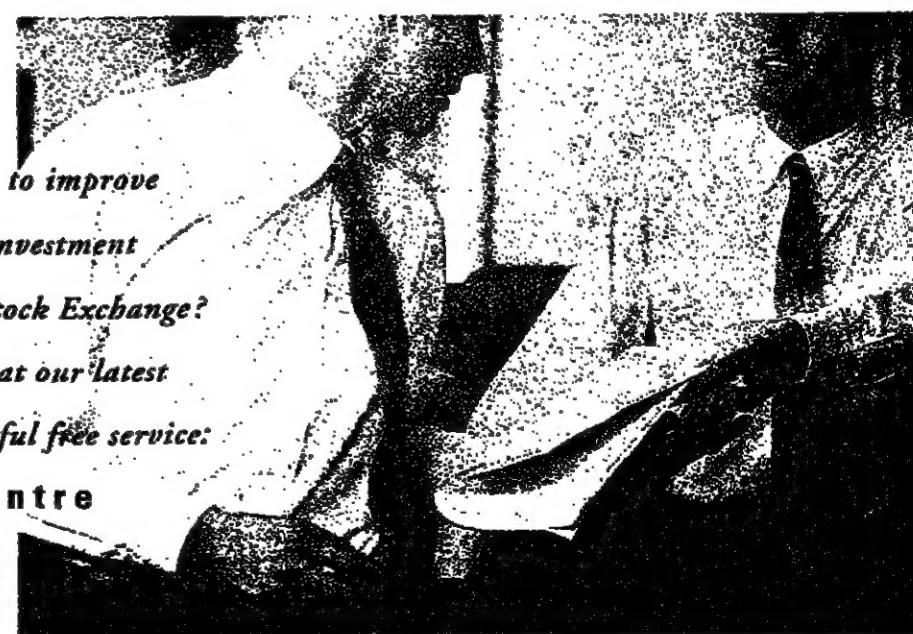
Code/City

Country

## At the Geneva Stock Exchange

the InfoCentre is our fastest growing security

Would you like to improve your return on investment at the Geneva Stock Exchange? Just take a look at our latest and most successful free service: the InfoCentre Financier.



The InfoCentre means: instant information

As a user you gain immediate access to interactive terminals linked to a business network which never goes to sleep. Exchange rates in real time. Fully-updated financial and economic indexes presented in easy-to-read graphic form. Access to specialised electronic news services and data banks. News as it happens: through both terrestrial and satellite TV stations. The specialist press every day.

The InfoCentre means: career development

At the InfoCentre take advantage of the exclusive Financial And Banking Training Resource of Geneva which helps you at every stage of your professional development: from a complete plan of studies to complementary professional guidance. Moreover, our highly updated library provides you with the very latest editions of those authoritative texts essential for success in today's increasingly complex financial markets.

The InfoCentre means: a personal business consultant

Consult our data bank which is remarkable not only for the wealth of its information, but also for the ease and speed with which you can locate and download exactly the data you need. Access via CBT, video terminals or from your own personal computer, no matter how far away you are from Geneva. The InfoCentre Financier: a service provided by the Geneva Stock Exchange.

GENEVA STOCK EXCHANGE

YOUR GATEWAY TO THE SWISS ECONOMY

To reach us, telephone: +41 22 310 06 94 or write to: ICF, Bourse de Genève, Rue Confédération 8, CH-1211 Genève 11, Switzerland



Georgia After the Fall  
Challenges for Latin America  
Eritrea Faces the Future  
The Quiet Renaissance of American Industry



## SWISS BANKING AND FINANCE 4

## PUBLIC FINANCE

## Alarm bells ring

SWISS governments, normally models of fiscal rectitude - even to the point that the government bond market until recently was chronically dull - have recently found things going badly wrong.

In 1990, the aggregate deficit of all three levels of government was a piffling Sfr1.9bn, or about half of 1 per cent of gross domestic product. This year it will exceed Sfr11bn and government leaders are starting to ring the alarm bells.

The main cause of the soaring deficits is the high level of unemployment which has forced governments to sharply increase their welfare payments. In previous recessions, unemployment tended to stay relatively low as guest workers went home, women retreated from the labour market and many men were too embarrassed to register for the dole.

As a result of their treatment of guest workers, the Swiss authorities have eased the conditions under which they could obtain permanent visas. The result is that few have gone home during the current recession, and the unemployment rolls have swelled from a few thousand in 1990 to 170,000 today.

If that were the end of the story, everyone would attribute the bloated deficit to cyclical factors and not worry too much about it. But simultaneously a structural deterioration in public finance has also occurred.

According to Mr Otto Stich, the federal finance minister, only half of this year's federal deficit, which is now expected to exceed Sfr7bn - more than double the initial estimate - is attributable to the recession.

"Even after the economy recovers, the deficits will



Otto Stich: 'deficits to remain high'

remain high," he complained at a recent press conference. The problem has been one common to governments everywhere, with politicians approving popular spending programmes without checking to see if the funds are available.

The federal government undertook a round of belt

**The main cause of soaring deficits is high unemployment**

tightening last year. It is also counting heavily on public support in a referendum on November 28 to boost revenue by introducing a modest but universal 6.5 per cent value added tax to replace a more selective turnover tax.

But even with these measures, Mr Stich warned that the prospect for the next few years was for total public sec-

tor deficits in the order of 4 per cent of GDP and the net public sector debt hovering around 40 per cent of GDP.

While these ratios are still relatively modest by international standards, Mr Stich, a socialist, raised the awful spectre of the government's credit rating being questioned and its financing requirements crowding out more worthy private sector borrowers.

The former may be plausible, but the latter is most unlikely given the extraordinary size of Swiss capital markets. Certainly, the government's large current demands have not prevented long-term interest rates from falling to close to four per cent, and no one apart from Mr Stich seems worried about a reversal of the trend.

In any event, the federal government is now embarking on another cost-cutting programme, this time focused on some of the more sensitive items in the budget, including transfers to the cantonal governments and the indexation of public servants' salaries.

The cantonal governments are now expected to put pressure on the communes, but they will point out that some 70 per cent of their spending is determined by cantonal laws.

Mr Stich claimed the new proposals would reduce the annual deficit by Sfr1.5bn by 1997 and by Sfr2bn in the longer term.

With this kind of zeal being displayed so early in the descent into excessive debt, it seems unlikely that Switzerland will ever become a concern of the International Monetary Fund. But the last word, as always in this country, will be with the voters.

Ian Rodger

Better recognition of portfolio management is the aim of a newly-established institute

## In need of the professional touch

SWISS banks are estimated to manage about half the world's international portfolio business and European institutions, as a whole, a good deal more. Yet, unlike their American counterparts, Europe's financial circles have been slow to recognise portfolio management and financial analysis as a profession in its own right requiring special skills and qualifications.

Most of those now tending other people's money - in banks, pension funds, insurance companies or asset management institutions - have learned what they know on the job.

Mr Thierry Lombard, a partner in the private bank of Lombard Odier, and his colleagues in the Fondation Place Financière in Geneva hope to change all that. In September this year the FPF and the Paris-based European Federation of Financial Analysts' Societies (EFFAS) set up the European Institute for Financial Analysis and Portfolio Management, with the aim of promoting high professional standards and qualifications throughout Europe, stimulating research and encouraging the exchange of ideas between the profession and academia.

"The European investment business needs competent professionals," says Mr Lombard, adding that creation of the institute "should lead to more efficient and safer investments". He would like to see something equivalent to the American diploma of Chartered Financial Analyst, widely held in the US and increasingly exported around the world.

Mr Lombard, who chairs the FPF, set up two years ago by the Geneva stock exchange to

promote Geneva as a financial centre, also hopes that establishment of the institute will strengthen the city's reputation as an international centre for asset management. This forms part of the FPF strategy to find a distinctive role for Geneva when the open-entry exchange shuts down in 1995 to be replaced by a nationwide electronic bourse system.

**The institute will co-ordinate training and act as a catalyst for new initiatives**

The city is now home to some 200 financial companies employing 20,000 people, including most of Switzerland's private banks.

The institute itself will not train students, but will co-ordinate current efforts and act as a catalyst for new initiatives. Among its first priorities is the establishment of a network of experts to aid EFFAS in designing and improving European-wide standards and qualifications, including the exchange of teaching and examination materials. The institute also plans itself to develop specialised training courses, refresher courses and seminars on new financial developments, such as new derivatives products or the latest portfolio management techniques.

In addition, the institute will sponsor publications and conferences, and support exchanges of ideas and information, including the translation of publications for non-English speaking members. It has already initiated work on a compre-

hensive guide for portfolio managers on taxation of investments throughout Europe, which it hopes to publish early next year.

One of its most important tasks, says Mr Lombard, will be to improve exchanges between theorists and practitioners, for instance to harness recent academic work on portfolio theory to develop advanced asset management techniques.

"If we managed only to halve the gap between academic research and professional techniques, that would be a very high achievement," he says.

For the time being, the institute is staffed by one part-time director, Mr Philippe Sorman, and a full-time assistant. The work will be done mostly by members of the institute's founding organisations, the FPF and EFFAS, or by outside professionals and academics. The FPF has given the insti-

tute a cash primer of Sfr1.5m, apart from which its activities are required to be broadly self-supporting.

Training of European financial analysts and portfolio managers has already made rapid progress over the past few years under the auspices of EFFAS, which has member societies in 17 European countries covering 10,000 professionals. In 1986 EFFAS established a training and qualification committee to lay down qualification standards that could be recognised across Europe. In 1990 it set up an accreditation board to certify the national courses being offered.

The emphasis has been on post-graduate training leading to an advanced diploma qualification. Switzerland and Britain were the first to be accredited by EFFAS; they have since been followed by the Netherlands, France, Norway and Austria between

them turning out about 500 newly qualified students a year.

Mr Lombard thinks it will soon be standard practice to require qualifications for new entrants to portfolio management, and to enrol existing staff on refresher courses. "Given the speed at which financial activities are evolving, financial professionals - like doctors - need to master the new developments in new products or new market regulations," he says. Companies will see a competitive advantage in better qualified staff.

At the same time, he does not believe more universal qualifications will make competition any less intense. "There is a world of difference between acquiring the basic language and knowing how to use it skilfully," he says. "But you need the first to learn the second."

Frances Williams

## PROFILE: BZ

## Narrow focus a winner

FOR most of its astonishingly successful eight-year life, the BZ investment banking group in Zurich has kept a low profile. Mr Martin Ebner, the driving force behind the group, has preferred to concentrate on leading his tiny band of traders and analysts to pile up profits for clients and, of course, for the bank itself.

So far it has been a winning formula, with the bank showing a net income of Sfr59.5m (\$41.90m) last year and Mr Ebner, a former equities analyst at Bank J Vontobel, spreading regularly in the lists of the wealthiest Swiss. The group's strategy has been to focus its attention narrowly. It has only a dozen main institutional clients, it follows closely only about 30 Swiss shares, and it issues and trades warrants in even fewer of them.

It scored an early success in 1987, issuing covered warrants on registered shares of Swiss companies. At the time, foreign investors were not allowed to buy these but most reckoned prohibition would soon end. This happened, but the warrants are still popular among some investors for their tax efficiency.

As it has grown, BZ has diversified into fund management, but again has focused narrowly. In 1991, it took over Pharma Vision 2000, a sleepy investment trust with holdings in pharmaceutical and chemical shares. It pared Pharma Vision's holdings down so that its Sfr2.4bn portfolio is now made up of securities of only three Swiss companies: Roche, Ciba and EMS-Chemie. In the same year, it formed a similar trust, BK Vision, for banking shares, and roughly two-thirds of its Sfr2bn portfolio is in Union Bank of Switzerland shares and options. BK is by far the largest single shareholder of UBS, Switzerland's biggest bank, with a 15 per cent stake.

In both cases, the trusts were able to achieve large scale status quickly because BZ institutional clients were willing to put their holdings into them in

return for Vision shares.

By late last year, the BZ group had reached a size at which it was increasingly difficult to keep a low profile, especially as three of its vehicles, the two Visions and its derivatives subsidiary, OZ in Zurich Options and Futures, were quoted. Moreover, Mr Ebner began to fulfil his commitment that the Visions "would" be active shareholders, trying to influence the management of companies in which they had holdings.

In December, BK Vision indicated publicly that it was unhappy with a UBS board decision not to renege on Mr Christoph Blocher, a controversial industrialist-politician, to its ranks. This was a delicate case as Mr Blocher, the chair-

**BZ's claim to fame is its ability to raise and make huge amounts of money**

man of EMS-Chemie and of Pharma Vision, was clearly a BZ ally. Yet the UBS move looked like spite against Mr Blocher's isolationist politics. In the end, BZ pulled its punch, but UBS lost face.

In June, BK Vision returned to the attack, filing a legal suit against the creation by UBS of shares that could be used to make acquisitions without prior approval by shareholders.

This time, it struck a responsive chord in Swiss financial circles, where it was widely felt that UBS had breached the meaning of recent company law reforms beyond a reasonable limit. UBS responded constructively, saying it welcomed the opportunity to clarify the law. For its part, Pharma Vision has begun to grumble about the lacklustre performance at Ciba.

But BZ's main claim to fame is still its ability to raise and make huge amounts of money. So far this year, BK Vision has raised Sfr230m and Pharma Vision Sfr210m in rights issues. A third investment trust, Gas Vision, to specialise

in shares of industrial gas companies, was launched in August raising Sfr500m.

Meanwhile, BZ Trust, a group offshoot which manages the Visions, has made astronomical commissions from them. BZ uses a formula that provides for no commission unless the Vision shares grow more than 6 per cent, but then for sharply rising fees. In the first half of this year, it earned Sfr140.4m from Pharma Vision and Sfr132.7m from BK Vision.

Mr Ebner's latest enthusiasm is for company share buy-backs. He says it is better to distribute excess capital than venture into risky diversifications. He started working on the techniques two years ago when looking for tax efficient ways for EMS-Chemie to pay dividends. One was to pay back a portion of the nominal share capital, which EMS did last year in lieu of paying a dividend.

This year, EMS took a bigger step, buying back and cancelling 38 per cent of its bearer shares, distributing Sfr550m back to shareholders. Société Générale de Surveillance, the cash-rich Geneva based insurance group, followed with a similar programme to distribute Sfr210m, but said it had not been advised by BZ.

BZ recently announced that its OZ subsidiary would launch a buy-back programme via partial redemption of its nominal capital worth at least Sfr15m.

BZ officials have begun floating the idea that mighty UBS should join the trend, although they recognise that in the case of a bank, a delicate balance must be struck between maintaining sufficient capital and producing good returns on it.

The time has long since passed when sceptics could say that the BZ group was a meteor that would quickly burn itself out. But equally, it remains to be seen if it can continue to spin gigantic profits for itself and its clients out of financial engineering on a small number of securities.

Ian Rodger

## Volume hits new highs

Continued from page 3

Mr Balz Merkl, managing director of OZ, says the change has encouraged the big issuers to trade their warrants on the stock exchange rather than privately in the hope of joining the elite 50.

In the OTC market, SBC raised eyebrows by introducing products linking syndicated bonds with equity derivatives.

In October, for example, it led a Sfr154m bond issue for the city of Zurich that was coupled with warrants for Zurich insurance shares, leading some to wonder if the city was backing the insurance company or vice versa.

"The point is that you can sell these packages even to very conservative funds," an SBC official said.

At Soflex, the most welcome

change was a 20 per cent average reduction in commissions early in April.

The exchange, which celebrated its fifth anniversary in June, has continued to adjust its product offerings. Notably it withdrew an interest rate future on a synthetic bond when federal government borrowings became large enough to support a real bond future. The so-called CONF future, launched in June, 1992, has become a solid performer with roughly Sfr700m open interest, and an option on it is to be launched next year.

Soflex is also planning to introduce long-term share options within the next few months.

Mr Otto Nageli, chief executive, says he is thinking in terms of two to three year con-

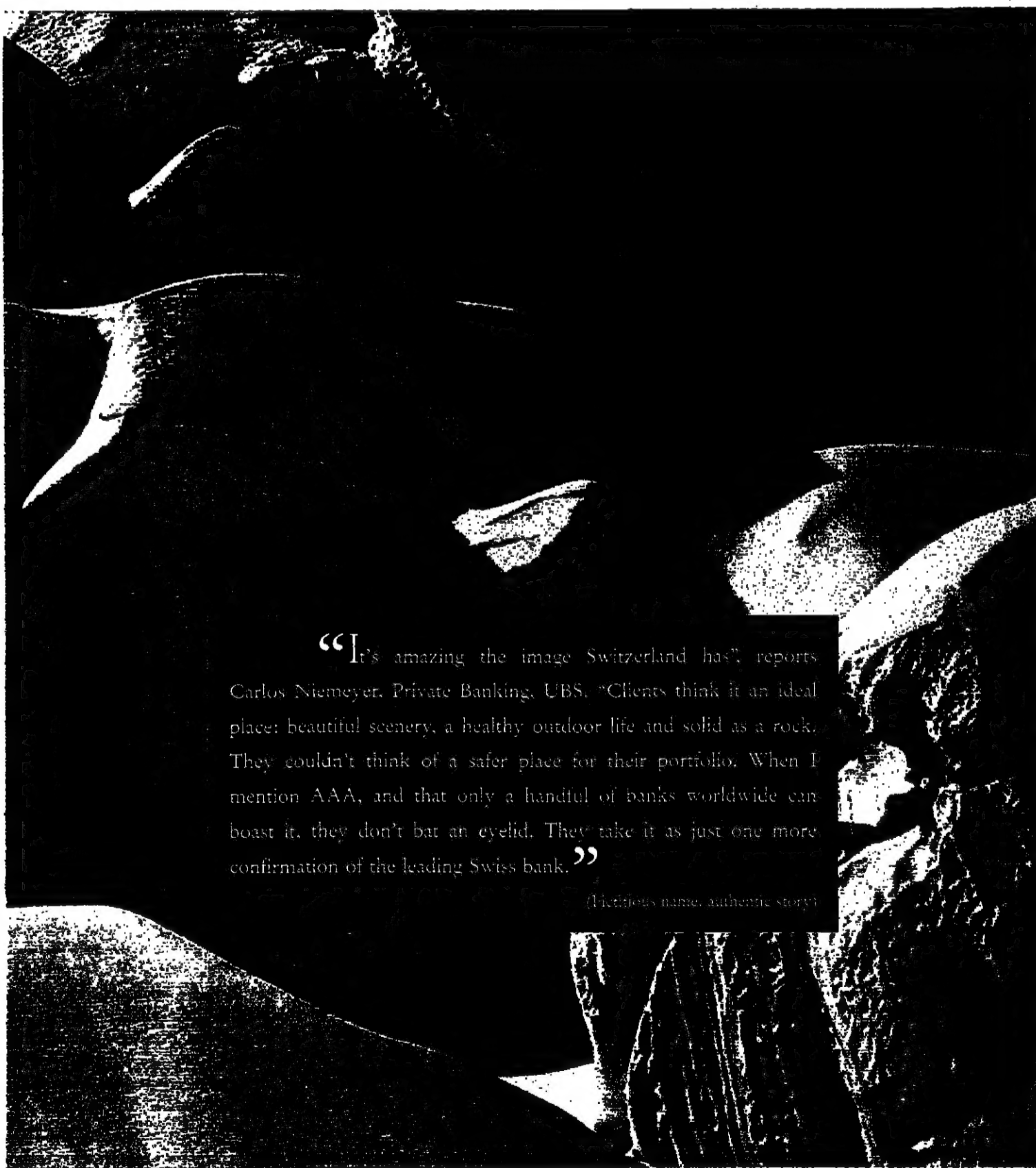
tracts on the six top Swiss shares and the SMI index.

Mr Nageli acknowledges that this move is not universally supported by Soflex members at the moment, and that it would put Soflex to an extent in competition with listed options on the stock exchanges.

"It is partially stepping into the quoted warrant area," he said. But he argues that it would open up to medium sized members the possibility of making writing long term options, a business that is now restricted to the strongest banks.

"But Soflex cannot compete with its members. If they do not want it, it won't happen," he said.

Ian Rodger



"It's amazing the image Switzerland has", reports Carlos Niemeyer, Private Banking, UBS. "Clients think it an ideal place: beautiful scenery, a healthy outdoor life and solid as a rock. They couldn't think of a safer place for their portfolio. When I mention AAA, and that only a handful of banks worldwide can boast it, they don't bat an eyelid. They take it as just one more confirmation of the leading Swiss bank."

(Fictitious name, authentic story)

Not banking as usual.



NEW YORK, LONDON, PARIS, FRANKFURT, ZURICH, GENEVA, SINGAPORE, HONG KONG, TOKYO, LUXEMBOURG, MADRID, MONTE CARLO, MILAN, MOSCOW

**LES FILS DREYFUS & C<sup>ie</sup>**  
SOCIÉTÉ ANONYME  
BANQUIERS

MAISON FONDÉE EN 1813

4002 BAILE

16, AEGIDIENSTADT

Handwritten signature or stamp, possibly reading "SBC" or similar.